BASF Roundtable Asia Pacific London

Transcript – Q&A Session
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Christian Faitz (Kepler Cheuvreux): Can you remind us of your current OMP ratio? And if you could give us a scenario: If you had 100 percent own production in Asia, how would your margins look compared to today? Thank you.

Sanjeev Gandhi: We cannot and do not intend to have 100 percent OMP; that's not possible. We produce more than 6,000 products. We do not intend to produce each and every one of them in Asia. That would be inefficient, since we have assets sitting elsewhere in the world, which are global assets, where products travel easier. These are specialties. It would make no sense now to duplicate and reduplicate them because that is not very efficient.

So, the focus on localizing our asset footprint is for businesses in Asia where we have the base load to fill those assets. These are normally assets where we need products and solutions close to customers, where lead times and logistics costs will make imports uncompetitive in the long-term.

It is sometimes difficult to calculate this. We normally do not like to give out that number. It depends on how you add up the numbers. If I would include our Nanjing footprint – which under IFRS we do not, but from a market share point of view this is crucial – I would say we are as close as possible to somewhere around 60 percent.

So there is some way to go. But it's a fantastic start. We have built our set-up over a period of time and we are getting close to where we would like to be hopefully until 2020.

Andreas Heine (MainFirst Bank AG): I would like to come back to the targets you had some years ago. It was €25 billion sales in Asia, €12 billion in China and cost savings of €1 billion. Could you refer to this under the changed market conditions?

Sanjeev Gandhi: We have not achieved the top line; you have seen the numbers. I have tried to explain a little bit the reasons. The cost saving targets of €1 billion, we monitored this until last year. We were already at 60 percent of what we planned to do. So, this was all in excellent shape and we did a lot of homework. One example is what you saw in Nanjing at BASF-YPC, what Stephan showed, the €100 million that we will achieve this year in terms of cost reduction.

So I do not want to focus too much on uncertainties, oil price and all of that. We have tried to explain this to you.

Targets going forward: This is something connected to what we did in 2015 in September, because the targets of the "We create chemistry" strategy have also been revised. Given the new environment and given the uncertainty – difficult to predict what the oil price will be, difficult to predict exchange rates, growth rates – we said we follow tendency, we follow trends. Asia had to do the same to reflect the reality of the markets. But what we have right now is something we feel very comfortable with, something we feel is a stretch. It is challenging, but it is achievable. Even in this current difficult environment we see here opportunities as we do the right things. We see also already in the first half of this year quite positive developments. So, all of this makes me very confident that we will get close to our ambitions going forward, 2020.

Peter A. Clark (SG Corporate and Investment Banking): It's a question on slide 20, on manufacturing again. Obviously, you had this target of 75 percent, back in 2013. I think then you gave us the number that it was down at 54 percent. Obviously, you have just said, currently it is around 55 percent. Are you basically saying on the growth expectations you have, pretty much that is what gets you to the 75 percent or is there some other change that might have to happen to get to the 75 percent?

Sanjeev Gandhi: I mean, the current investment pipeline we have under execution, e.g. the Kuantan project, is going to be a very strong boost to top-line growth.

Everything else we do in terms of investment planning which we have formed up and we are putting steel in the ground until 2018 – some of those examples I have shared with you. This gives us a fair amount of confidence that with what else we have in the pipeline, which we have not yet formed up or not yet announced publicly, but we are working on right now, we should come close to that target.

Now, whether we hit 75, 70 or 80 percent in the end, our strategy is that we continue to invest where it makes sense: close to markets, close to customers. And we always invest in the markets for the markets. So the assets that we put e.g. into China are more or less catering to the Chinese markets, or the assets that we have in India more or less cater to the Indian markets.

So, try to be close to your customers, try to take the advantage of short lead times, cost efficient deliveries and fast reaction times and do the right things, do a responsible use of capex and then we come as close as possible to, in the best case even try to exceed that milestone of 75 percent.

But we do not know e.g. – we talked about uncertainty – what happens in 2018, what happens in 2019. That is very difficult to predict. So we try here to be a little bit cautious, but ambitious as to what we want to do going forward.

Thomas Wrigglesworth (Citi Investment Research): If we look at the upstream, I guess what we have seen over recent years has been a battle for market share. By upstream I mean building blocks and those first derivatives. Is that now over? Or will the battle now shift into the downstream? How do you balance those two factors going forward?

Sanjeev Gandhi: The battle in the upstream business is not over. We are not yet out of the challenges that came from low margins, overcapacity and low prices. But as I mentioned earlier in my speech, we see here a bit of a trough. If there are short-term interruptions in production for whatever reasons, we see immediate spikes in prices. That tells us that the inventory pipeline is relatively good and there is very little potential for things to get much worse. So that is the way forward.

When will it recover? In certain product lines, you already see some kind of momentum now. Vitamins is a good example. What we see in terms of vitamin prices developing e.g. in China was quite nice in the first six months. There are certain products where we still see challenges. But we do not see this getting worse.

Is downstream business free from competition? We wish it were; it is not the case. There is competition everywhere. We have very, very smart competitors, both Western and Asian, in all product lines. Our advantage is the way we connect upstream and downstream. There was one nice example Stephan showed where we have the integrated Verbund site with Sinopec, a joint venture, and then we have this little specialty site – some of you have visited this in Nanjing – where we do specialty chemistry, 5,000 ton plants, 10,000 ton plants.

So, all the benefits of getting competitive support – raw materials, services, steam, everything else – we transfer then from the big brother, which sits up there – that is our joint venture with Sinopec – to this little specialty chemicals plant, which is extremely successful. And we have a very nice pipeline of investments that we are working on to fill this. It is a 100 percent site. We have a lot of flexibility to work there. We start to bring in, one by one, products that were never produced in Asia, either by BASF or in some cases also in the industry. For the first time we then localize those kinds of products and we grow this thing.

So, this is just one model of where we have that advantage because we have the entire value chain that we are steering, from cracker to a diaper. There we have this advantage of playing around to say: At which step can we make the most money and are we able to capture that margin? That is an advantage that not too many people have in the industry in Asia.

Competition is there across all product lines, everywhere. The differentiation is that we are extremely local. We have 6,000, 7,000, 8,000 people who work in sales, customer service, supply chain planning. We can reach any customer anywhere in Asia in less than two hours. This kind of resource allocation that we have on the ground, customer-facing resources, apart from the R&D we talked about, there are very, very, very few peers who have this. That is our competitive edge, apart from our heritage, our competence in technology, the way we run plants; you have seen some examples. It is all there. But that particular factor is for me a very import differentiator.

Jeremy Redenius (Sanford C. Bernstein & Co.): When was the last time the Asia Pacific business has covered the cost of capital? If not now, when do you expect it to cover the cost of capital again?

Sanjeev Gandhi: We do not break down cost of capital coverage by region. There are reasons for this because, as you know, there is a significant portion of business we do in Asia which is not manufactured and produced in Asia. We support our assets in Europe, in North America, wherever else they are outside of Asia.

All you see in our bottom line is the trading margin. So what we try to do when we do this kind of business is: Obviously, we capture the margin at the site wherever the product is produced. You see it in the top line. But you don’t see it in the bottom line. So, with this very high trading ratio that we have, the merchandising, stock and sale, indenting that we do, it is not the right KPI to measure in terms of overall business.

What we could think about doing is looking at our OMP footprint and seeing whether here we do earn, for whatever we produce locally, cost of capital. But we do not give that number out.

So we have to be careful if you calculate things like EBITDA margins and stuff like this. The top line is a mix of OMP with a significant portion of trading business, merchandise business. And the profit contribution of both cannot be the same, obviously, within the regional P&L. For the company it doesn’t matter. That is something always to keep in mind when we look at the model we run in Asia for business.

Tio Charbaghi (Citadel LLC): I wanted to just frame the opportunity by 2020 for your group, maybe in two buckets. If I add up the capex you spent between 2012 and 2020 that will be €7 billion for the region. I presume you are trying to earn your cost of capital, if not better. So we can now do some simple maths on the EBITDA opportunity there. So maybe you can just talk about realizing that by 2020.

The second bucket being: I think you mentioned you already accomplished 60 percent of your savings target of €1 billion, now at least €400 million to come.

So just maybe help us without making you commit to an EBITDA target in absolute terms in 2020.

Talk to us about how big that opportunity is, especially given how much capacity you have coming on line in 2017, 2018 and other years.

Sanjeev Gandhi: I think the opportunity is huge. The fact that we have invested is for growth. And obviously growth has to come with the bottom line impact that we hope it will come with. We would like to be significant contributors to BASF's bottom line. We would like to contribute wherever it is possible to earning cost of capital or even a premium on cost of capital for the company. So we do our bit here in the region. Breaking it down is something that we don't feel comfortable with. We do not want to do this.

In terms of savings, yes, we have the €600 million that we have managed to do. This was a lot of cost avoidance. So, there was planned cost which we had forecast in terms of growth will come and we need to add infrastructure cost and everything else. This we have then avoided. The focus in these three years is more on cost elimination. So, this is going to be basically existing cost that we want to take out. This will obviously have a very direct and a very fast positive impact on our P&L.

So we have achieved 60 percent of what we targeted in terms of the €1 billion and right now it is not €400 million, it is €250 million that we target until 2018. Our DrivE program is €1 billion in total, so we are saying 25 percent and most of this is going to be short-term, immediate and it is going to have a direct impact in terms of hopefully boosting profitability also.

Anthony G. Jones (Redburn): I wanted to go back to the market growth rates you have got. I think it's on slide 16. One of them confused me. Agrochemicals consumes a very big portion of BASF R&D, but you are only looking for around 3 percent in market growth. That rate is well below what your peers talk about and also some of the industry consultants. Why is that? Is it that some of the products you are bringing on just are going to cannibalize old products, you are more realistic or are you expecting some sort of price deterioration?

Gops Pillay: On slide 16, we depicted market growth rates, which are also confirmed by external consultants. For our ag portfolio, we are talking about overall 3 percent market growth. But remember, especially in Asia Pacific we had a smaller exposure to the insecticide portfolio of the business.

If you look at what we are ramping up: Again, we do admit, in terms of share of the market it is a smaller footprint than it could be if you remember the numbers I have mentioned.

However, if you look at the 250 product launches. I give you a concrete example. In a mature market, e.g. like Japan, we had a very strong exposure, good margins in rice. But if you look at the high-value markets, e.g. cereal in Australia, very low exposure. If you look at basically rice in emerging markets like South East Asia, very small exposure.

So what we are doing is trying to launch this and also get this insecticide portfolio launched. With this growth, this will accelerate our footprint in the ag portfolio in Asia Pacific.

Timothy W. Jones (Deutsche Bank AG): It is just one question, but I am going to try a part A and a part B. Part A is specifically about China. On your assumption of China being lower growth than it was historically, are there any of the Verbund product chains that you refer to as being heavily oversupplied that you think will actually tighten, say, to 2020 that actually gives you pricing power?

And then part B, which is sort of linked to that: Do you think there are going to be any shutdowns within China of the higher cost producers? You flagged that you are a low-cost producer. But we haven't really seen a lot in the last couple of years of actual physical big shutdowns. Do you think that will change to 2020 at all?

Stephan Kothrade: Indeed, what we see is oversupply, a lot of investment in the upstream businesses. I think there are two factors. One is that regulation becomes stricter, as I mentioned. I have been working in China now for five years, first in Nanjing and now in Shanghai. In many, many contacts with peers in the industry, with representatives of the authorities, I could really feel that government is very serious about law enforcement.

The regulation you have in China is quite strict. It is comparable to the European Union; there is not a big gap. The point is that in the past there were no sanctions, no punishment if companies did not meet these standards and requirements. The Western companies typically do because they do worldwide, but many local players simply did not do this. Now, there is a change. State-owned enterprises but also privately owned enterprises in China have to invest more in order to be compliant and to avoid being shut down by the government. And we see this trend; we can see that they invest. So the cost structure will change and this will make us more competitive definitely. So this is one factor.

The second one is that also now in China there is more awareness in all the players that it is not a sustainable model to keep on investing and there is overcapacity. I think there is now more doubt, there is more time to consider: Is it the right point in time to invest? So does it mean there won't be any investment anymore? No, certainly not. But gradually I can see an improvement. So what we sometimes see is that – take acrylic acid again as an example – when the margins are really down many of these players shut down their capacities, some even knock at our doors and buy from us because it's cheaper to buy from our Nanjing Verbund site than to produce themselves. Of course, when the margins improve they start up again. So it's not yet a consolidation and this is what we have seen: That it never really happens that there is a shake-out.

Now, if you combine it, there is more awareness and there will be less investment than would have been maybe five years ago – plus: law enforcement in terms of environmental protection and safety. This combination will help. I think we will see an improvement – to what degree is hard to say.

Sanjeev Gandhi: Just to add to that: We hear a lot about supply side reform in China. The focus right now obviously is on the steel and mining and iron ore and coal industry. But there is also an extensive discussion on what needs to be done by authorities in China to make that industry a little bit healthier. Industry is talking, our local peers but also us. We have been asked, we have given feedback to the government and they have heard from us. We have given them inputs and now we wait and see what comes in terms of next steps and when we will see some kind of supply side reforms and consolidation and perhaps one or the other bankruptcy happening also in China. But I think it's a matter of time. The pain is quite high in certain product lines.

Lutz Grueten (Commerzbank): Again on page 20, on overcapacities in China, but this time on MDI: Just a year ago you have started in Chongqing the production, 400,000 tons. On that slide you are still mentioning Caojing coming on stream by the end of 2018. Is this not a bit overly optimistic view on that?

Sanjeev Gandhi: The set-up in Chongqing is different from what we have in Caojing. Chongqing is a 100 percent BASF investment and we ramp up capacity step by step there. What we have in Caojing is a joint venture, a multi-party joint venture. And we have taken the decision, all partners, that we need to do something in terms of capacity additions. It was a decision which was taken and we are building. We will be next year mechanically complete and then we will see how we take that into the market. Is it irresponsible? I mean, the market for MDI is growing in China. It was a little bit slow the last couple of years, but we see a quite nice development this year. Eventually, the expectation is that demand will catch up with the overhang that we see in the capacities. The challenge is, of course, to predict when that happens. At least our opinion is: The sooner, the better.

Andrew Stott (UBS): Just looking for a bit more on the capex number for the region: How much of that is China, of that €3.5 billion? Can you just run through the bigger projects? How much of the €3.5 billion is perhaps variable? If we assume that the glass is half empty, how much of that can be revised?

Sanjeev Gandhi: We do not do the break-up by sub-regions. At the moment – I think I mentioned this – the single biggest investment we do in Asia is in Malaysia, it's not in China. So that's a significant spend that is under way. We also do have quite interesting projects in China, but we have also investments, as you have seen, in Korea, in Thailand, in India, Malaysia. So we will find the most reasonable way to distribute the capex wherever we see opportunities.

There is a portion of these €3/€3.5 billion we talked about which is including small capex. So we are talking about catalyst changes, we are talking about turnaround expenses, we are talking about maintenance, changing pumps, compressors.

Some of the assets in Asia are already 10+ years old and we need to keep renewing them. So there is going to be a certain portion of this. This is kind of slow and steady. This happens every year; we can predict this.

Until 2018, whatever we need to spend and get started up, steel is already in the ground. We are building as we speak. 2019 and 2020 is where we still have a lot of ideas and these are business cases we are challenging very, very critically to say: Are we in the profitability threshold? How is the market environment? Are we adding to overcapacity? Is this what the costumers need? Is the timing correct? Is the technology in order? Should we do a joint venture? Do we need to always build ourselves? We showed you some examples of very smart joint venturing we are doing. Would we think of an acquisition rather than build capacity if the market has too much capacity and we need volumes? Can we do co-producer deals?

So, these are the kind of variabilities that we will have, but you can rest assured: Given the challenges in the Asian environment with the overcapacity, we do not want to add to the problem. That's not the intention; we want to be sensible here and clever.

Stephan Kippe (Commerzbank): I have a question for Stephan also. With regards to China, when slide 13 was in play, you said that volumes were slightly up in China between 2012 and 2015. When it came to automotive there was this quite impressive number of 80 percent growth from 2012 to 2015. So, my assumption is that there were some sectors that, on the other hand, also quite significantly underperformed.

From your personal perspective, going back to what your expectations were in 2012, what are the end markets in China where your expectations were the highest and where you were most disappointed about how the growth went from 2012 to 2015?

Stephan Kothrade: Indeed, automotive was a fantastic development with amazing figures. We had of course difficulties more in the upstream business because of the overcapacities we have seen. We were not that happy with our performance in construction e.g. But it's not that we have now a high number of pain points that were completely down. It's more that automotive was by far the most successful development – that's right – but it's not that we have sectors that completely disappointed us or caught us completely by surprise, I would say.

Sanjeev Gandhi: Where we have to be sometimes careful with top-line sales numbers is that this can be distorted, whether it is oil price or whatever it is. When we talk of real volume, we have grown in China. There are certain businesses where we cannot reflect in volumes because we sell e.g. certain parts to the automotive industry as number of pieces, millions of pieces. We sell e.g. catalysts in millions of pieces or we sell paint in millions of litres. That does not also always adequately reflect top line. It's always a challenge for us: How do we translate this into volume growth?

China was also impacted with the portfolio issues. Some of the divestments we did also had an impact in China. So it is somehow a mixed bag, but construction was disappointing. What is quite nice is: We see in this quarter a very nice pick-up in construction in China which is very promising because we have a lot of solutions that are driven out of the construction market. But this was one where we were disappointed. In some of the upstream businesses we did not see growth; there we were struggling a little bit. But, overall, as you said, it's been a good run for us in China.

Chris Counihan (Credit Suisse): A couple of questions on the industry: You are still seeing a GDP multiple for chemicals demand at 1.3 times. Has that changed over the last five to ten years, especially as we are moving into a more consumption-led market?

Part B to the market question is: You talked about specialty, you talked about upstream products. Is there an easy number we can talk about as what proportion of your products overlap or do you compete directly with Chinese state-owned chemical producers? What's their overlap with your portfolio?

Sanjeev Gandhi: The good news is that the penetration of chemistry in driving GDP share continues to go up in Asia. And this is just coming from getting better and better solutions, resource efficiency. So here we see opportunities where we will see even a higher share of GDP-driven growth that positively impacts the chemical industry. And this goes across the board. We gave you a couple of examples of companies you never heard of. The Korean company, a cosmetics company, is a 25 billion dollar market cap company; nobody knows about this. But this is a star. Korean cosmetics, Korean soft power is huge in Asia. Korean soap operas – the Chinese love this. They have this massive influence. We see this huge penetration of this kind of regional, local champions. They demand, because they know that we have been so strong in the Western world: You have those solutions, but can you customize them for the Asian needs? We need in Asia skin-whitening products, not tanning products. What can you offer? – So that's a challenge for us because we are used to offering tanning products. So now we have to start thinking differently. That's one example.

The same in China: The names of these car companies you will never have heard of. But these are the best-selling, value-for-money SUVs and cars today booming in China. So that's where we are getting involved, that's where we are offering our products and solutions. And that's what is driving us and driving the business.

Having said that, it doesn't mean we ignore our established customers. We want to add that on top.

The state-owned companies: I would not separate state-owned and private companies. Chinese companies, Asian local companies are active in everything we do. So there is an overlap everywhere you go. That's a challenge. So we have no monopolies, we have no oligopolies. We are active in a market where the customers have a choice and they are active everywhere. There is also ambition to go further and further into value-added, value chain-extending products as we do today. Some join us, we do it together. Some want a license from us and some compete with us.

But these are just normal market conditions. So we do not see ourselves here privileged in terms of: We do something that nobody else in the world can do. That's no longer the case. We have a lot of respect for our Asian peers and they are smart, they are fast and they do things very well. But, of course, the learning curve is steep. Everything that we have built around what we do in Asia helps us in the end to differentiate. There is not one single factor where you say: The technical barrier, the technological barrier is so high, nobody else can enter this value chain. It's not the case anymore. So they are fast followers. In certain cases they are even market leaders and we are following Asian peers, Chinese peers. But that's just the normal nature of business. We do not have those egos anymore. We just learn from the best and we try to keep our position.

Andreas Heine (MainFirst Bank AG): I'd like to learn more about your investment in Kuantan. Could you elaborate a little bit more? The citral plant, is that the first which comes on stream or are that only the precursors you were talking about? And if it is dedicated to aroma chemicals but the investment of €500 million is basically more than you have globally in sales with aroma chemicals, so probably it is more than only for aroma chemicals. And as you addressed that it is something where you would say you will see this in the overall Asian growth, then aroma chemicals is probably not enough. Could you put this in more perspective, please?

Gops Pillay: Yes, you are absolutely correct. If you look at the aroma ingredients investment, essentially, if you think a little bit of the value chain, you are taking a C4 stream, creating precursors and one of the precursors is citral. Citral is a precursor that goes into menthol. So very simple: Menthol is used in many industries, flavours and fragrances, nutrition, feed. Then you have also synthetic menthol and you have natural menthol. This is a market. So that's one area.

If you look at citral, it's also a building block for vitamins. So if you take the entire consolidated global view of the citral value chain, this is enabling us to have a precursor that goes into many building blocks, but also end products.

But what is also very interesting with the aroma complex investment: In this case you do have a reasonable barrier of entry. If you look at the capex spend and the level of technical complexity, as you have seen in the video, it's not that four or five other people, competitors can do the same. So I think, yes, we have a reasonable competitive edge.

If you look at the aroma ingredients market, in Asia you are having a growth rate of greater than 5 percent. And this is predominantly India, China dominating and some markets in South-East Asia. The beauty part of the aroma ingredients: It's not a single-faceted market. It's a multi-faceted market. So we are pretty optimistic about this investment and future growth plans.

Sanjeev Gandhi: We are in practice producing five products out of this complex. So it's citral and menthol, but there are a couple of different grades of menthol going into different applications. We have citronellol which is also a big product that we have. So it is not just one product, but as Gops said: Citral is the building block. It's a building block molecule which then goes into different kinds of value chains. And since now this is our second citral plant – we have one in Ludwigshafen, we have now one in Kuantan and we have this big vitamin manufacturing base in Germany – citral will also be used then as a feedstock to help supplement what we have in Germany and also then grow the downstream businesses which are also outside of flavours and fragrances.

So, it gives us all opportunities because now we have a choice: How do we play this? That gives us the flexibility that we needed – plus: We are now closer to the biggest markets, China and India, in Asia.

Christian Faitz (Kepler Cheuvreux): Since we have the experts here, would you mind giving us a trading update for Q3 how demand has developed sequentially into Q3? The quarter is almost over.

Sanjeev Gandhi: The first half numbers you know. We said: July continued the trend of June. I talk now global. August is normally the summer vacation month. What we observed this time was that the summer lull, summer dip – however you name it – in Europe was not as deep as we anticipated. I cannot speak for my German colleagues, but I guess people wanted to work more than take vacation this time. So we saw that it was a shallow summer dip in Europe. We did not see any summer lull in Asia.

North America was a mixed bag. There were certain industries doing quite well: Automotive, construction. We struggle – no surprise here – with some resource-based industries like oil, oil-field, mining. South America continues to be a trouble spot for us. Volumes continue to shrink. Brazil is really not developing in a healthy way. So here we are challenged.

September is not yet over. We have come out of the summer lull in Europe and the rest of the world quite well and until today, I would say, the tendency of what we saw in July seems to continue. We seem to have good order entry. But the quarter is not yet over and you will have to be patient until October 27 when you will see the numbers. But we feel so far – just a feeling – pretty good.

Christian Faitz (Kepler Cheuvreux): That is also true for Asia?

– My comments were on the global development. In Asia specifically, we have seen in the first half a very nice volume growth. We have seen 4 percent, China 5 percent. Year-to-date of the third quarter; until September we have seen that trend continue.

You have seen the results, we have increased bottom line significantly. We are doing our homework, we are ramping up capacities as we speak. It takes time when you build these plants. First we have to deal with issues, little things here and there. Then we have to get approvals, then we have to ship volumes out. But the ramp-up now kicks in; that's also explaining the volume growth. And then we see certain industries where we are strong, automotive doing really well, India, China, Thailand. Construction in China – I mentioned it – was recovering nicely in July/August. So the trends in Asia gave us a lot of hope and optimism. We hope this continues.

Jeremy Redenius (Sanford C. Bernstein & Co.): You aspire to go faster than the market. You are putting a strong emphasis on sales growth. Why is that? I guess I worry that would lead to more capex on top of capacity, pricing pressure, potentially lower incremental return. So why that metric first in your thinking about how to drive value creation in this business?

Sanjeev Gandhi: I think that's a great question. What drives us? We went through this investment wave in Asia. This was very important for us because we had to build a base. So the way we operate, of course, is that we build a base, we build a core and then we start adding downstream products, value-extending products there.

The base now is there. We are big enough in the big production lines. We have two integrated sites, we have a world-scale cracker, we have Kuantan, we are growing. We have now our footprint in India which we did not have in the past. So we have now the infrastructure in place.

The capital has been spent and now we need to make that capital work for us. There is just one way you do that: You start filling those assets up. You start ramping up capacities, you start moving volumes. Does this have a direct impact on top line? In a lot of cases, we replace imported volumes with local volumes. So we do premarketing out of existing assets somewhere in the world and then we replace them with the assets which start up in Asia. So you will not necessarily see the impact on the top line in terms of growth, but you see the OMP ratio and the volumes starting to ramp up. And this has obviously then a direct positive impact on the P&L.

Then we also take out a lot of idle cost, obviously, because when you start to ramp up capacities your idle costs go down. You dilute your fixed costs by higher volumes. So, for me real volume growth is the key to our success. Why have we invested all these assets in Asia? Not to keep them empty. We want to fill them in.

Now, going forward – you are right: There is a risk, but I mentioned this already – we do not want to add to the problem of overcapacity in these selected product lines we talked about. We will be quite selective and smart about it. But there are product lines like the coatings plant we started 1.5, 2.5 years back, it's full today. Our catalyst capacities are full today, our engineering plastics capacities are full today. Our customers are waiting for menthol to come out of Kuantan. So those are the products where we would like to invest in, ramp up and move the volumes to our customers because we have customers asking for them. We see market pull, but we will still have certain product lines where we have to push volumes into the market and compete. Here, it's our cost competitiveness, the efficiency with which we run our plants and the smart ways in which we have our go-to market models where we are able to fill also our commodity units today. So we look at the entire portfolio and, having learned the hard way some lessons from the past, we will be more selective and careful where we put capacity in future.

Emily Liu (Haitong Securities): I just wonder whether you have a strategy for battery cathode business, especially tap into the growth of the NEV market demand in China. Currently, your capacities are all in North America.

Stephan Kothrade: Indeed, Asia Pacific is a very interesting market for batteries, China in particular. I mentioned the figures. Dominant in this arena are the Chinese OEMs in the automotive industry. So it's quite natural that BASF also looks into opportunities what to do in China. At the moment, I can't tell you more, but this is something we are monitoring closely and it's part of our strategic considerations what to do with this market opportunity and how to take measures then.

Gops Pillay: To add to this: I think it's no secret that the space of batteries material is very attractive, but it's a difficult space. We have a joint venture with Toda in Japan. If you look at the main supplier of batteries and if you talk about the Tesla story, Panasonic is the main supplier.

We have partnered now with Toda and are also looking at opportunities in China. Together with our partner Toda we are working very closely with Panasonic and see how we are developing our footprint, especially in the cathode materials space.

Sanjeev Gandhi: Our global business unit that operates this business is based in Shanghai. We have relocated them from the US to China a year and a half ago. So they are based in China.

We see this very exciting start-up scene in China. More than 200 start-ups are working on e-mobility in China, very, very exciting. We do have already today assets on the ground in China. We are now in our research campus in Shanghai also moving the development activities for the battery materials closer to the markets into China, and we are building up resources on the ground. One example is what we do in Japan – which we now extend also to the US, by the way, which we have announced, that we want to extend the collaboration with Toda also in the US to be closer to the US e-mobility market.

So we are working really across the globe. But this business is being shaped out of China and the success or the failure of this business will depend on how good we are in China. So we have a very clear focus there.

Jeremy Redenius (Sanford C. Bernstein & Co.): I think to say “profits in Asia Pacific are volatile” is an understatement. I wondered if you could just give us some really rough sense of profit evolution excluding merchant cracker products or excluding the most commoditized products. I am just trying to get a sense for: With the hard work you are doing in innovation and sales and marketing, is it actually delivering profit improvement, excluding all the volatility we see from the basic commodities?

Sanjeev Gandhi: Innovation has by nature high risk and long lead times. There are no quick wins to this. So we have two challenges: We have now the infrastructure. We have to get used to the resources in Asia; our organization has to get used to leveraging these resources that are in our backyard. We never had them. In the past, innovation in Asia was done somewhere in Ludwigshafen, far away from us, far away from our markets. Now we have this infrastructure and the resources in our backyards and we have to learn, the organization, including us: How can we leverage these innovations? So we pull in best practices that we have out of our activities in Europe and North America which are much more mature in terms of experience.

The beauty about Asia is that things happen fast. It’s all about speed. Development cycles are short. People are happy with an 80 percent solution. It’s all about speed to market, it’s all about being quick, being efficient, being first in the market and being competitive. These are parameters which we are getting used to working with. And this is for us a fantastic learning experience. Without the infrastructure we built in Asia we would never get the opportunity to work with local champions, regional champions who would then invite us because we are now credible. We put money and steel and resources on the ground.

But it’s a learning process. It’s not going to happen over night. It took us 151 years to get where we are today and we have had this infrastructure for 1.5 or 2 years in Asia, the big ones.

But what we see so far – some examples we shared with you: Innovation in China, in Asia, for the region and for the world, that’s the model that we will take going forward. These are extremely exciting times.