

EXECUTIVE SUMMARY

Last year's Budget Outlook was entitled 'Budgeting for a New Normal'. Its main argument was that we may experience a 'New Normal' as the global economy recovers, rather than a return to the previous Boom period. A year later, there seem to be good reasons to believe that this may prove to be correct.

This year, it therefore seems sensible to try and highlight some of the key issues we may face in the chemical industry during this transition period. Unsurprisingly, these are often linked to those areas where it seems uncertainty is already on the rise. One can summarise these as follows:

- Chemical industry operating rates and likely future trends
- Likely levels of demand in key sectors such as housing and autos
- Changing consumer trends in the West
- New market opportunities in emerging economies
- Rising economic concerns, especially over currency values and protectionism
- The impact of financial markets on crude oil prices and chemical margins
- An increase in regulatory pressure in areas such as operations and safety

In turn, this has led me to title this year's Budget Outlook, 'Budgeting for Uncertainty'.

This White Paper suggests that in view of these major uncertainties, it may well be prudent to

adopt a scenario approach to budgeting and strategy, with an agreed Base Case along with Upside and Downside variants. This is particularly useful at creating a consensus amongst colleagues about the key issues, and capturing the concerns they may have. In turn, of course, this leads to more robust planning.

I have, therefore, also included my own view of what such a Base Case might look like, as well as Upside and Downside views. I believe, given the uncertainty, that there is great value in ensuring that the Upside and Downside Scenarios are indeed quite different from the Base Case, and from each other. As we have learnt to our cost over the past 2 years, just because something seems unlikely and unwelcome, does not mean that it can't happen.

I then go on to highlight some of the debates around these key issues, in order to help crystallise your own thinking. I am sure you will disagree, perhaps quite strongly, with some of the analysis I raise. I regard this debate as very healthy, in that it will hopefully take the discussion forward, rather than brush issues 'under the carpet'.

As always, I will be very happy to exchange views directly with you, or via the 'Chemicals and the Economy' blog. I hope that you will find this White Paper helpful, as you plan your course towards the New Normal, in an increasingly uncertain world.

Paul Hodges

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