

# Restructuring of the chemical sector in the Czech Republic

---

Lessons learnt,  
best practices

EESC - CCMI,  
Ljubljana, 7th  
March, 2008



Josef Zboril  
Member of the Board of Directors,  
Confederation of Industries, CR

# Agenda

- Chemical Industry in the Czech Republic
  - Background, Restructuralization, Lessons learnt
  
- Spolchemie
  - A success story

# Czech Chemical Industry - historical background

- ❑ In spite of its importance – fairly obsolete (some exceptions) but organized in large and focused groups
- ❑ Basic needs of economy covered, deficiencies in specialties (Czechoslovakia)
- ❑ Largely based upon domestic raw materials and supplies from Comecon (crude oil, gas)
- ❑ Products traded also for hard currency (20%)

# Czech Chemical Industry - historical background

- No practical experience in market economy, everything governed by central planning
- Environmental problems, personnel used to command-and-control style with minimum of personal initiative
- Low level of co-operation and outsourcing of services – everything done „at home“

# Czech Chemical Industry - Restructuring

- ❑ Major step in restructuring process – privatization
- ❑ The former Groups dissolved, all major operation facilities listed in the large (voucher) privatization
- ❑ A problem – rules of the game for funds
- ❑ Exception – refineries: a special joint stock company formed to facilitate direct sale to a consortium of strategic investors

# Czech Chemical Industry - Restructuring

- After the first wave of privatization some stocks (in ownership of voucher funds) were rapidly bought by new, dedicated shareholders
- Purposeful concentration of ownership into larger groups– so called 2nd wave
- Artificially constructed holdings got bankrupt (Chemapol Group) maybe, 3rd wave???

# Czech Chemical Industry - Restructuring

- Operation facilities survived the shareholder's shocks
- Further foreign strategic investors arrived and the industry privatization has been, at least for the time being, stabilized
- There have been some „victims“, but, luckily, not too many, causing not too much of losses

# Czech Chemical Industry - Restructuring

- The industry managed to preserve and further develop its R&D capabilities
- A very good background for operational restructuring and dedicated investments
- Looking back, the privatization was fairly smooth and fast and, ultimately, successful!



# Czech Chemical Industry - Restructuring

- ❑ The industry was modernized gradually in all major profiles
- ❑ Profound change in human resource management – resource mobilization
- ❑ Market economy skills learnt fast – open economy
- ❑ Environmental performance reached the highest standards – Responsible Care...
- ❑ Ready for tough competition after tough restructuring

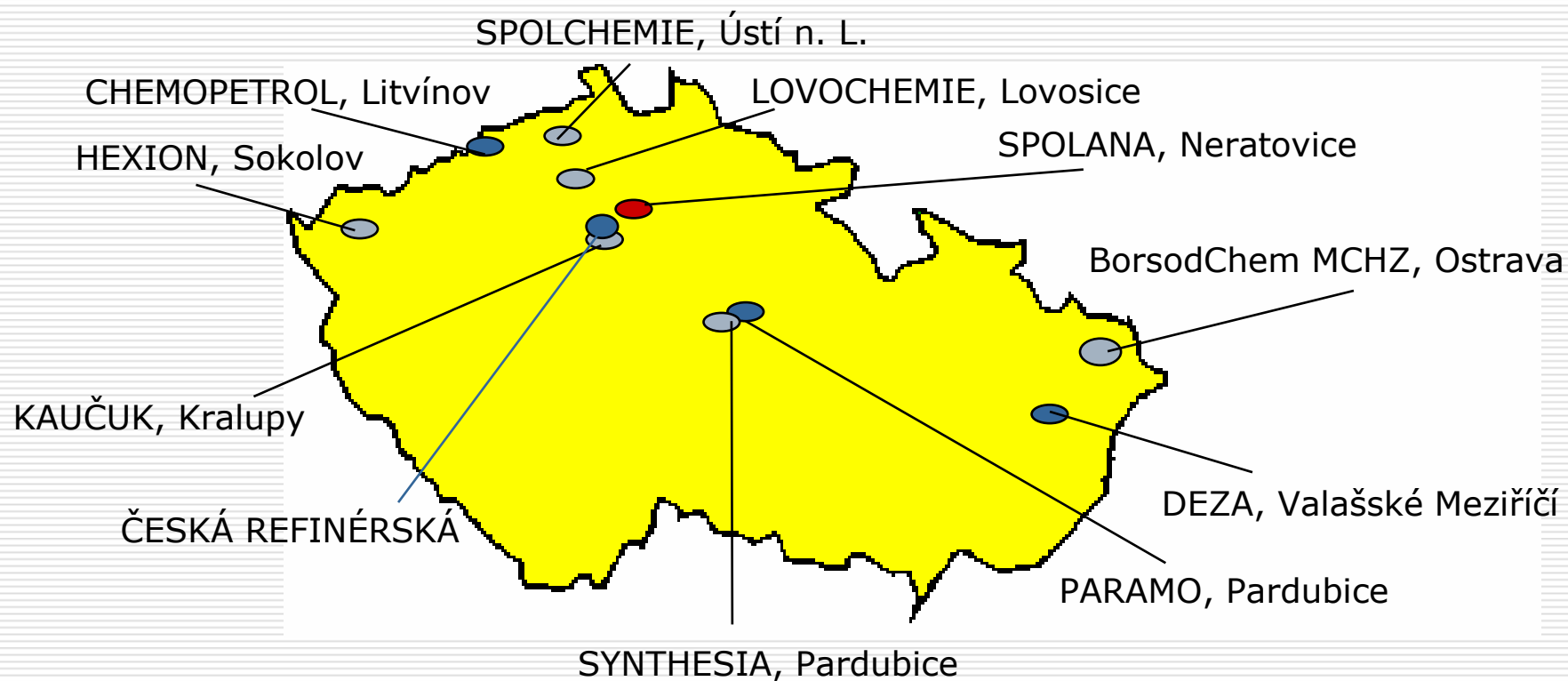
# Czech Chemical Industry

- It comprises refineries (15 %), production of chemical substances and preparations (40 %), pharmaceutical, plastics and rubber industry (45 %)
- The industry holds the 3rd position in the Czech Republic based on revenues
- It creates 13 % of GDP of the Czech Republic

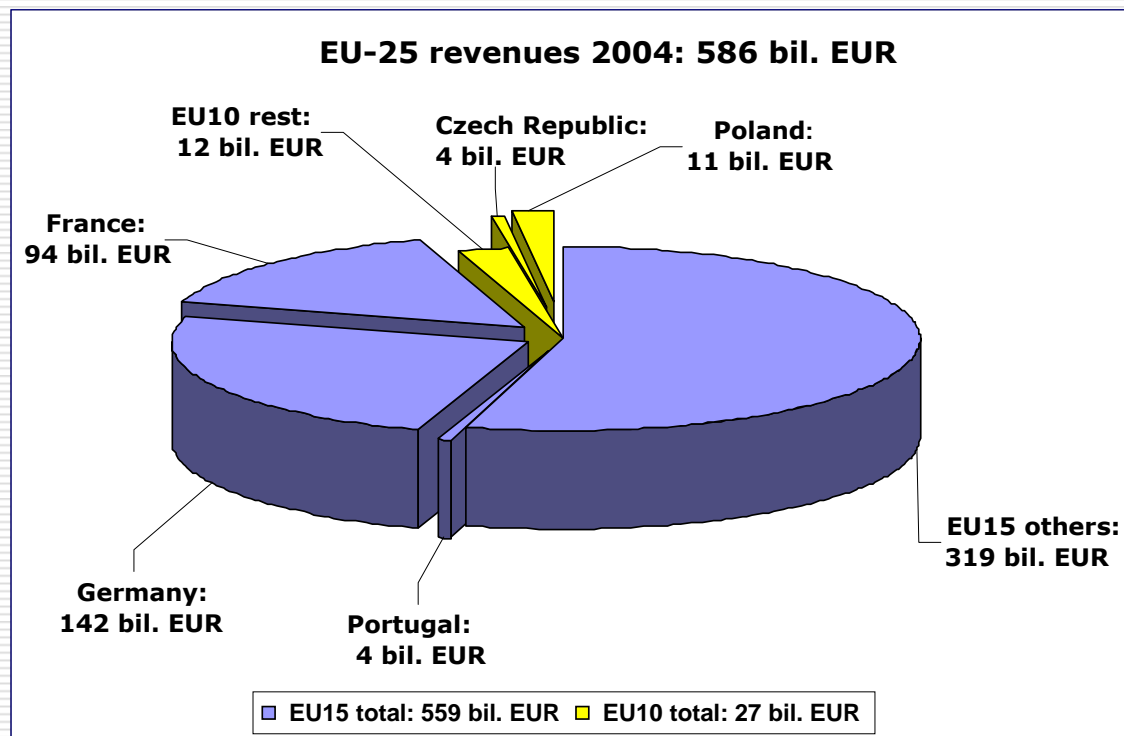
# Czech Chemical Industry

- ❑ The industry provides 106 000 jobs
- ❑ The industry is a decisive supplier of raw materials for a number of downstream domestic industries!!!
- ❑ It belongs to industry branches with the highest rate of innovations
- ❑ It is a knowledge based industry – one of a few, meeting the Lisbon strategy aims

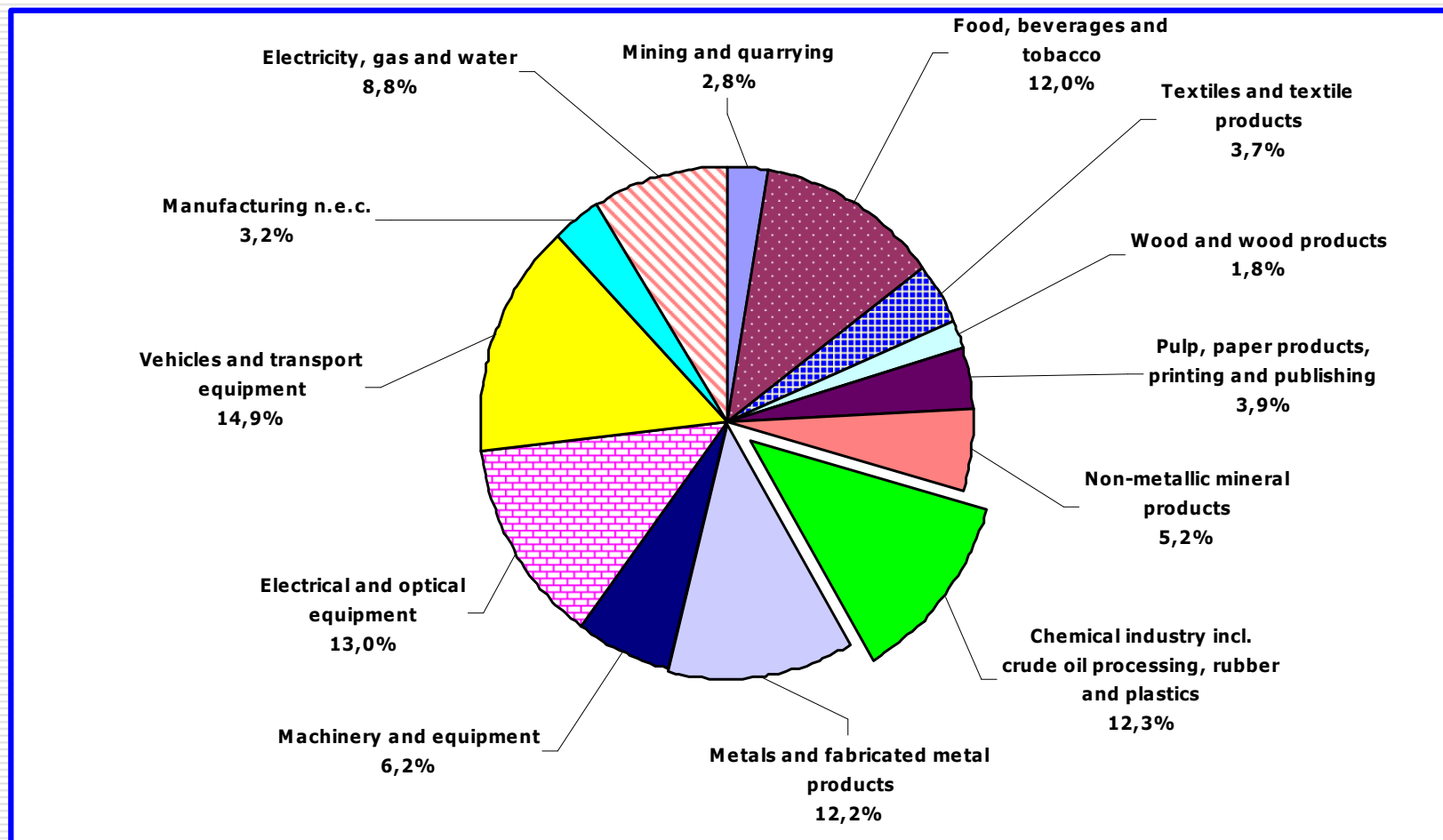
# Major Chemical Companies



# Czech Chemical Industry within the Framework of EU



# Position of the Chemical Industry within the Czech Republic



# Chemical Industry of the Czech Republic 2005

Indicator	Unit	2005	index 05/04 (%)	
			Chemical industry	Processing industry
Turnover (current prices)	CZK	349.3	109.7	107.4
Sales (fixed prices)	CZK	347.3	107.4	108.4
Number of employees	thousand	106.2	104.8	100.7
Export	CZK	216.0	111.9	108.3
Import	CZK	332.1	105.2	102.6
Value added	CZK	67.9	103.6	103.4
Pretax earnings	CZK	19.9	91.9	97.3

# Results of the Czech Chemical Industry in 2005

Aggregation	Index 2005/2004		
	Revenues Current prices	Revenues Fixed prices	Labour productivity in revenues current prices per 1 employee
Crude oil processing (232)	116,0	98,7	115,7
Chemical and pharm. industry (24)	107,3	104,8	107,8
Rubber and plastics industry (25)	110,8	112,1	103,8
<b>Chemical industry in total</b>	<b>109,7</b>	<b>107,4</b>	<b>106,2</b>
Industry in total	108,0	108,1	108,1

## Commentary

- Increase of revenues in current prices and of the labour productivity index (with the exception of coating compositions) by 10,4 % in total – price increase, or 6,2 % - labour productivity
- Increase of number of employees (4 thousand=3,9 %, rubber and plastics industry)
- Increase of wages – by 4,1 %
- Increase of revenues for rubber products (12,8 %), chem.fibres (11,5 %), pesticides (11,0%), decrease for coating compositions (-0,5 %)



# SPOLCHEMIE Ústí nad Labem

## Where We Are



# SPOLCHEMIE Ústí nad Labem

## A success story

- ❑ Burden of the past – wast operation site, too extensive product mix
- ❑ Environmental liabilities
- ❑ Too many of „auxiliaries“
- ❑ Privatisation – vouchers – funds
- ❑ „Tunneling“ experienced – loss of 2 billion CZK
- ❑ Salvage operation – 7 tough years of thorough restructuring (big fire)

# SPOLCHEMIE Ústí nad Labem

## A success story

- ❑ Crisis management, consultancy assistance
- ❑ Training and education, austerity measures
- ❑ New strategy developed – in the recession environment – very sound!
- ❑ Hostile take-over averted, new ownership evolved – dedicated to the business

# SPOLCHEMIE Ústí nad Labem

## A success story

- Reliance on research and development and genuine service to customers
- Solid basis of international co-operation
- Vital investments in the top notch technologies – resins in mutual co-operation with the technology leader

# SPOLCHEMIE Ústí nad Labem

## A success story

- ❑ Technologically advanced for the 21st Century, building on 150 years of tradition.
- ❑ Spolchemie have always been pioneers in chemicals and were one of the world's first major chemical producers.
- ❑ We have always shown leadership in the dedicated and focused chemicals entrepreneurship, even within the central planning era

# SPOLCHEMIE Ústí nad Labem

## A success story

- ❑ Strategy updated, biofuels business acquired – JV
- ❑ Further expansion – to get close to our customers (SE Asia, US)
- ❑ Provide the most advanced technologies based upon our patents
- ❑ Good corporate citizenship!

# SPOLCHEMIE Ústí nad Labem

## Mission and strategy objectives

- Becoming a key player in the field of specialty synthetic resins
- Form alliances with foreign strategic partners – access to top technology
- Product rationalization – focus on key products
- Set up a superior sales and marketing structure
- Investment in key segments and environmental protection
- Continual improvement of safety, security and reliability of processes

# SPOLCHEMIE Ústí nad Labem

## In the World

We keep our fingers in the pie of the world of chemical production. More than 90 % of Spolchemie production is exported

Resins

Inorganics

Specialties

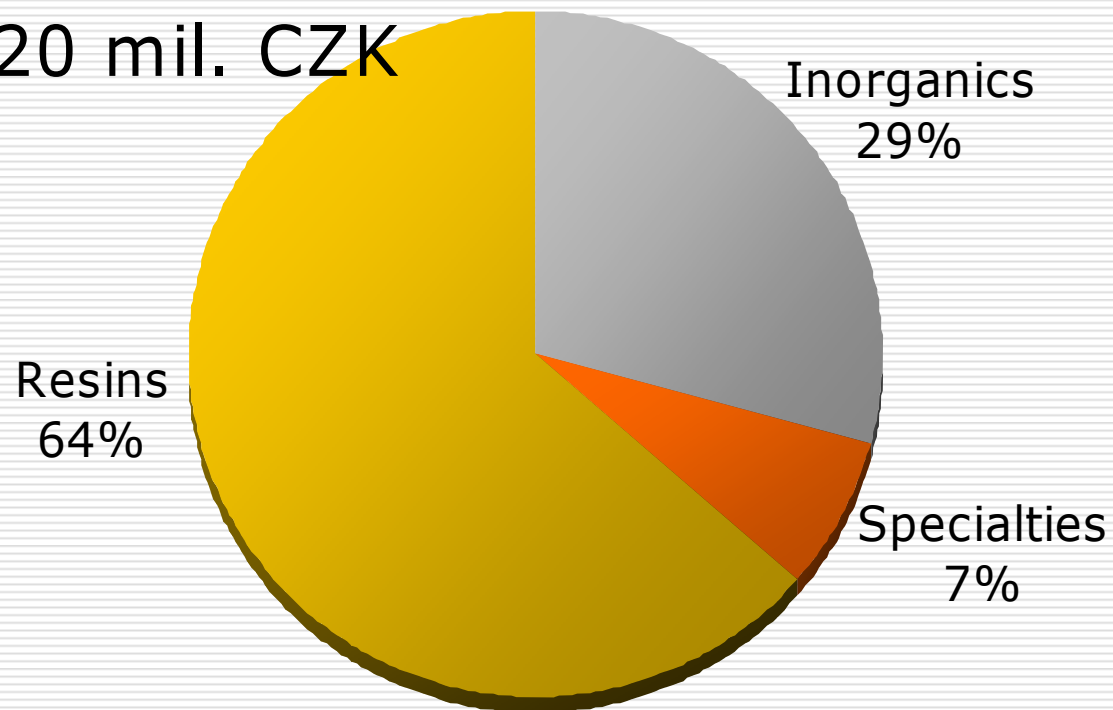
Leading European player in resins



# SPOLCHEMIE Ústí nad Labem

## Production Structure

2007: Sales 4,338 mil. CZK  
Profit 220 mil. CZK



# SPOLCHEMIE Ústí nad Labem

## People

Management of Spolchemie – that means prime quality Czech and international experts in the field

Ing. Martin Procházka, Czech Republic – General Manager and Chairman of the Board „Spolchemie aspires to become one of the biggest players in the area of the world specialty inorganic chemistry. “



Paul Yianni, Great Britain – Manager Resins“Brand new production facilities coupled with many years of experience will prove to be a winning combination for Spolek and our customers.”



Michael Grosske, Germany – Manager Inorganics„We place emphasis on working together with our customers in a partnership. Reliability of our production enables us to concentrate fully on their needs. “



# SPOLCHEMIE Ústí nad Labem

## Environment, Health and Safety

Spolchemie is minimizing the impact of its production on the environment through the implementation of the latest production technologies.

Within the investments in the amount of millions of Euros the best available technologies are applied and the latest safety features were installed in the plants which prevent the leakage of chemicals into the environment.

An integrated safety system is monitoring production and informs the rescue system and local authorities as well as citizens themselves about every important occurrence behind the plant gates.

# SPOLCHEMIE Ústí nad Labem

## Thoughtful and Safe Chemistry

Spolchemie follows principles of the voluntary international “Responsible Care” programme, designed for the area of chemistry. In accordance with the international principles the company has certifications for the quality and environment protection management systems.



RESPONSIBLE  
CARE