

MR. RAMESH KANA, GROUP CHIEF EXECUTIVE OFFICER, EMERY OLEOCHEMICALS

“Plastics additives and bio-lubricants are the segments in which we have a competitive advantage and we will continue to do well”

Malaysia's Emery Oleochemicals has earned a name for itself as a leading manufacturer of high quality, natural-based chemicals commonly made from natural oils and fats such as palm kernel oil and tallow. With manufacturing facilities and sales & marketing offices located in Asia Pacific, Europe and North America, the company boasts of an extensive distribution network covering over 50 countries globally.

Emery Oleochemicals is a 50:50 joint venture between Malaysia's Sime Darby Plantation and Thailand's PTT Global Chemical. Sime Darby Plantation, the plantation and agri-business arm of Sime Darby Group, is the world's largest oil palm plantation company, while PTT Global Chemical is the chemical flagship company of PTT Group, Thailand's national energy and integrated gas company.

Over the past few years, Emery Oleochemicals has looked to transition from a pre-dominantly commodity chemical player to a natural-based speciality chemical producer. This strategy has seen the company launch five speciality chemicals business platforms – Agro Green, Bio-Lubricants, Eco-Friendly Polyols, Green Polymer Additives, Home & Personal Wellness – in addition to its mainstay OleoBasics business.

This transition has been led and managed by Mr. Ramesh Kana – first as Senior Vice President and Group Chief Financial Officer and then from January this year as the Group Chief Executive Officer (GCEO).

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Chemical Weekly/HPIC India caught up with Mr. Kana on his recent visit to India and quizzed him on his vision for Emery Oleochemicals and the future investment & strategic initiatives on the anvil to make the company a leading sustainable speciality chemical player.

Excerpts from the interview:

How would you rate the performance of Emery Oleochemicals in recent years?

The transformation of Emery Oleochemicals began in 2008 when PTT Global Chemical bought Cognis' 50 percent share. This was during the global financial crisis. Notwithstanding the crisis, they honoured the commitment, closed the transaction, and installed my predecessor, Dr. Kongkrapan Intarajang as the CEO to transform what was till then three regional businesses in Europe, North America and Asia being run independently with its own CFO and CEO – and merge it into one global organisation.

In the past five years or so we have been trying to create an Emery Oleochemicals global corporate culture, global systems & processes, a global way of thinking without competing with each other in different re-

gions, and effectively leveraging the synergies.

Our growth strategy is based on the premise that as a commodity chemicals player we really don't have the scale in today's market. We are seeing big capacities being set up in Indonesia and our competitors mulling splitting capacities of a million tonnes and more. Today, our commodity portfolio consists of a 180,000-tpa plant in Malaysia, and a 250,000-tpa plant in the US.

Our commodity business in the US is protected by virtue of distance as it is unviable to move palm or finished products to the US from Indonesia. But in Germany we could already see that it was going to become an issue and we have just announced the sale of plant there.

Unless you are integrated backwards to a palm plantation which enables you to use the plant in a more efficient way it is not as valuable to us as to the other party. We do not have integration to a palm producer, notwithstanding the fact that we have a shareholder which is a large plantation group. We don't have real integration, so we cannot cope as this is a low-margin business.

We realised that this is a com-

modity business and we do not necessarily have the competitive advantage. So we decided to focus our time and efforts on going downstream. It is about staying ahead of the curve by innovation and by giving customers what they want.

Our transformation in the last five years has been supported by an investment programme involving doubling the capacity of our speciality chemicals plant in north Germany, building a new polyol plant in the US and two speciality ester plants in Malaysia and a sulphonation unit. Over the last three years we have invested close to around \$500-mn. We now have the infrastructure in place and we know the market we are going to target, so it is about making these assets work in the days to come.

In this transformation, are you betting big on certain businesses to deliver for you?

The segments in which we have a competitive advantage and continue to do well is in plastics additives and bio-lubricants businesses. These two businesses will necessarily gain a disproportionate amount of the management's time and shareholders' attention. We have been in these businesses for a very long time and we have a strong team.



And beyond the customer relationships we have very good product & application development people in this space and we have a pipeline of innovation that makes us very excited about what we can offer in the coming years.

The third area will be our polyols business. We will be commissioning a new plant shortly in the US. What is very exciting about the plant is that it incorporates a technology we acquired in the US two years ago that allows us to recycle foam. It is a real breakthrough because we brought an early stage technology, developed it in-house, scaled it up and now we are in a position to address some environmental issues, like landfill for example. We have had significant expressions of interest in this technology from countries like Japan where landfilling is such a big issue and involves huge costs.

Our other two businesses are bit smaller – in agrochemicals, we are refocusing and the US market will be our main focus to start going forward. The centre of gravity for that business was Asia but now we have moved it to Cincinnati, US. We have a new head of business and we have a number of patented products to offer. The agrochemicals market is very huge with many big players, so for us

to be successful we have to focus on niche applications.

The last one is our Home and Personal Wellness (HPW) business. That is a more difficult one for us as we have recently exited our ethoxylation plant in the Netherlands. The sulphonation unit in Malaysia is effectively a commodity business and apart from that we have a speciality esters plant using a Korean technology. So in terms of the capacity to produce HPW products we are limited to one small plant and on that basis it is unlikely to gain as much management focus in the short term. We are still in the process of evaluating whether this is a business where we want stay in or maybe exit.

How do you assess the current developments and future trends in the conventional oleochemicals business like fatty acids and alcohols?

In Asia we see significant over-capacities. We estimate the fatty acid demand-supply balance not to hit equilibrium for yet another 6 or 7 years. In fatty alcohols it looks a bit longer – it could be up to 10 years based on the current consumption rates. This means that a lot of the HPW businesses – particularly the ones like sodium laureth sulphate

(SLS), sodium lauryl ether sulphate (SLES) – are no longer businesses that make money on their own right; they have become outlets to help move your fatty alcohols. The same is the case with ethoxylates.

It is difficult to envisage any further investments in the commodity chemicals space especially in Asia at this point in time. We find it as effective to buy in the market today; the old theory of being backwards integrated and having strong supply sources is less relevant today. We see people shopping around to get spot deals; in some cases people are actually averse to doing off-take contracts on a pricing formula.

The Indonesian government has put a tax on exports of crude palm oil to encourage a value-added industry to develop. This tax situation has prompted a lot of capacity build-up in Indonesia.

The biggest disruption to the demand-supply equation is the fact that a lot of new capacities, particularly in Indonesia, are backward integrated into small plantations where the level of competencies for what to do with the split fatty acid is very low. So it ends up with traders that come into the market. There is always the issue of where to take the profits – at





the plantation level or further downstream at the fatty acid/alcohol level. And that is an area where I have not seen any consistent thinking, so it is very hard to read where the market will be at any point in time.

How important is India in your growth strategy? What kind of operations do you have in India and how do you plan to take it forward? What are the key challenges that you foresee in the market?

India has been an important market for us. But over the last few years we have perhaps been quite focused on the business in the US and Europe. My visit here is to signal that there is a renewal of interest in the company in building a significant presence here in India and to establish relationships with key players.

Today our involvement in India is in two ways – one, we do have some direct relationships with some large customers and two, we work via Mumbai-based Majorhub Oleochemicals. Our relationship with Majorhub will continue as we see them as our strategic partner in India. We are also trying to engage with some big customers here to look forming some strategic alliances. India is not an easy market; you need to have a strong presence locally in terms of competency and knowing how business is done here and we have not reached that stage yet. So we have to rely on our distributors and some key customers here.

But this market is a key area for us. India – along with countries like Brazil and Russia – is part of our ‘emerging market’ strategy. China is a very similar market and we are looking at establishing a bigger presence there.

Our focus over the next few months is to establish a solid infrastructure and foundation in India for future business.

Would that mean setting up a wholly owned subsidiary here?

At this stage there are no intentions to set up any subsidiary of Emery Oleochemicals here. We will work with Majorhub as our key partner in the near foreseeable future.

Your comments on the growth prospects in India.

At the moment a big share of the business is in commodity chemicals. Of course with the imposition of duties on fatty alcohol and so forth, the business has slowed down a bit. The value added products from alcohol like ethoxylated products are an area which we will like to look to expanding in the short to medium term.

There are opportunities in green plastic additives and bio-lubricants. In plastic additives, we are a key additives supplier in the PVC segment and in Europe, we are one of the top 5 suppliers for the same. This implies that we have a lot of good technologies and a deep understanding of this market. We would like to bring that expertise to India and look at developing both the plastic additives and bio-lubricants markets here. With increasing awareness about using bio based materials I think this is the right time to launch such products more aggressively. Some agricultural chemicals pro-

ducts may also work here; but it is more in the medium term.

In the HPW market, there are tremendous opportunities in India because of the growing affluence – people are going up the curve in terms of the quality of products being consumed. We may not be a big player in this market; however we still have commodity chemicals plants which can supply into this market. India is close to Malaysia where we have our plant; we can supply RSPO certified products. So I think there is business to be developed on the commodity side in this segment. In terms of Emery Oleochemicals being in the HPW market in India, at this stage, it is probably not on our radar.

You mentioned about setting up a bigger presence in China. How does the China market compare with Indian and what kind of prospects do you foresee in that market?

China is also a very difficult market to operate. It has significant alcohol and ethoxylates capacities. For exporting into China you really need to demonstrate some significant value addition. It is not about cost, it has to be about differentiated products.

Another feature of China – which is equally true for India – is that it is hard to talk about a China-wide market; there are regional markets within China. Appointing a distributor to represent us in China will not be feasible, but it would be more realistic to appoint a distributor for a particular region. For a company of Emery Oleochemicals’ size we need to pick our battles. That would mean understanding the particular region in China that we believe would represent the best market geographically and then building a presence there.

We are potentially setting up a subsidiary there in Shanghai; that is under discussion at the moment. We have a business in Honk Kong as well (Emery Oleochemicals Hong Kong) which supplies a lot of products into China. There is possibly some scope to rationalise our presence in Honk Kong and China and be far more targeted.

Of course, the China market is growing – it is growing similar to India with growing level of affluence. The Chinese government has encouraged a lot of foreign investment in this space. The ability to move our commodity products in China is probably a bit more limited but our plastics additives and bio-lubricants are doing very well. And this is what is driving our thinking behind setting up the presence there.

What are the key components of your future investment strategy? Are there any specific regions in the world which you plan to focus on?

In order to keep ahead of the commoditisation curve we need to be close to the growing markets, which is Asia-Pacific. Malaysia, Thailand, Singapore, etc. are fantastic locations because we can meet the demand from India and China from these places.

Growth opportunities for us are two-fold. One is organic. If we were to consider setting up a new plant it would most probably be in plastic additives and bio-lubricants area where we are seeing our current capacity utilisation increasing exponentially. There needs to be some consideration about where the next plant might be located – I would daresay somewhere in Asia, close to feedstock and competent people. This could either be in Malaysia or Thailand.

The second growth opportunity is non-organic growth – growth by acquisitions or small mergers. There are certain things on our radar. We are very clear about what we are looking for; the fit has to be there. We know the gaps we have in terms of infrastructure, competency, technology, etc. and when we look at an acquisition target, we want it to fill these gaps. The acquisition need not be something that doubles the size of Emery Oleochemicals; it could be an acquisition that allows us to grow one of our business segments a bit quicker than if we did it organically.

Would you like to comment on the R&D initiatives you are taking?

For pure research we have collaborations with institutions and universities around the world. We would be very open to establishing a collaboration with Indian institutes of higher learning. We have such tie-ups in most of the key countries for us but we don't have one here in India. We find that such linkages with academia are vital to establishing a presence in the future as well. I will be highly supportive of such a collaboration in India.

Most of our research money is spent on applied research. We have technical development centres around the world where our product & application development (P&AD) scientists work in close collaboration with our customers.

We have a very strong team in Germany which has been the hub for the P&AD group for many years. Notwithstanding the sale of the Dusseldorf plant the team remains and we will continue to invest in the infrastructure required there. The other big technical development centre that will continue to grow will be in Cincinnati, USA. In

Malaysia we have a presence – not as big as the other two, but an important one – and it will also grow in the future. But in the next 12 months or so, the ones in Germany and the US will grow at a faster rate.

The key filter for Emery Oleochemicals today in terms of where we spend our research money is not so much in coming up with a novel chemical molecule, it is in defining where that molecule takes us in terms of creating a more sustainable planet. Take for example our recycling foam technology; in some small way we alleviate the land filling problem and help the planet. This ticks all the boxes for us in terms of sustainability.

The other example is oilfield chemicals which are a subset of our bio-lubricants business. The oil industry may be in the downturn at the moment but the fact is that we have to keep drilling, which means there will be constant need for our biodegradable product which is 97% green; we can use it in environmentally sensitive areas. This ticks all the boxes for us.

For legacy reasons, every oleochemicals company has products that don't tick all the boxes and over time I see less focus on those areas. Emery Oleochemicals is a company that has gone beyond specialities to look at end applications that make a difference to the planet through sustainability, renewability, etc.

I am very sure that Emery Oleochemicals will be looked upon in 3-5 years as not just a chemicals company but as a company that is innovative and which spends its resources on sustainable solutions to make this planet a better place for future generations.