

ASIAN SPECIALTY CHEMICALS NEWSLETTER

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INTRODUCTION

We hope that you find the *Asian Specialty Chemicals Newsletter* informative.

BDA is a corporate finance advisory firm that helps multinational companies identify and execute acquisitions, JVs and divestments in Asia. We focus on the specialty chemicals sector and are well placed to assist our clients.

If you think that BDA's services may be useful to you, please contact us at any one of our branch offices or email me at erellie@bdallc.com. Contact details for our branch offices are in the back of this newsletter. We look forward to talking to you in the future.

Euan Rellie
Managing Director

CHINA

Asahi Denka Kogyo KK of Japan will invest US\$8m to set up a manufacturing subsidiary in Shanghai in Q2 2002 to produce resin additives. Manufacturing operations are scheduled to begin in Q3 2003, with annual capacity of 20,000tpa. It will make purifying and antiseptic additives, as well as additives to make the resins more flame retardant. These products will be sold to Chinese plastics manufacturers. (July 4, 2002)

Akzo Nobel of the Netherlands opened a new MCA plant in Taixing, Jiangsu province, China. Azko will also make a new investment for a coating resins plant in Suzhou. The coating resins production facility in Suzhou is the latest investment by the company aimed at growth in China. The new coating resins plant will become operational in 2004 and is located in Suzhou New District near Shanghai. It will produce alkyds, amino and acrylic resins for the coatings industry. (June 13, 2002)

Crompton Corporation of the US announced the expansion of its OSi Specialties business in China to produce and market organofunctional silanes used in coatings, adhesives, sealants, fiberglass, rubber, and electronics applications. It has formed a JV with the **Nanjing Shuguang General Chemical Company**, the largest producer of silanes in China. Crompton is the majority shareholder in the JV, **Nanjing Crompton Shuguang Organosilicon Specialties Co Ltd.** (July 11, 2002)

Specialty chemical company **Degussa AG** of Germany will establish a wholly foreign-owned investment company in Beijing to increase its presence in China. Degussa will invest US\$35m

into the new company. Degussa plans to develop from being a foreign company exporting to China to a domestic company that manufactures products in China and exports them to other Asian countries. Since 1988, Degussa has opened a total of 11 sites in China with an investment of US\$80m. Degussa's sales in China reached US\$236m in FY2001. (June 24, 2002)

LG Chem Ltd, Korea's largest chemical producer, plans to build a 20,000tpa engineering plastics compounding (EPC) facility in southern China's Guangdong province by Q1 2003. By 2010, LG plans to expand the Guangdong plant to 50,000tpa and build another 50,000tpa plant elsewhere in China. With these investments, LG would boast a total EPC capacity in China of 100,000tpa, rivaling **GE Plastics** of the US. LG Chem already operates China's largest ABS and PVC plants in Ningbo and Tianjin, respectively. (July 18, 2002)

Mitsubishi Rayon of Japan is considering building a 25,000tpa methylamine and 30,000tpa dimethylformamide (DMF) plant that would be built at Changzhou, China in collaboration with **Jiangsu Xinya Chemical** of China and other local companies. Jiangsu Xinya produces 15,000tpa of DMF at the Changzhou site. Current global demand for DMF is 300,000tpa with China accounting for 120,000tpa. **BASF** of Germany who currently has DMF capacity of 30,000tpa at Ludwigshafen, Germany and runs a second plant at Camacari, Brazil will build a 30,000tpa DMF plant at Nanjing. **Samsung Fine Chemicals** of Korea has recently increased its DMF capacity by 30,000tpa at Ulsan, Korea and also plans to become operational in China by 2005. (June 24, 2002)

Qilu Eastman Specialty Chemicals Ltd., a Sino-American JV, will build an oxo derivatives plant in China. Product output will consist of texanol ester alcohol and 2,2,4-trimethyl-1,3-pentanediol diisocutyrate (TXIB in China). The partners in the JV are US-based **Eastman Chemicals** and the Chinese **Sinopec Qilu Petrochemical Co.** The new oxo derivatives complex, to be located in Zibo, Shandong province will cost US\$30m. Texanol ester alcohol is considered to be the leading coalescing aid used in premium quality architectural paints around the world. TXIB plasticizer is a primary modifier for vinyl, urethanes and other polymers for

the production of consumer goods such as flooring, wallpaper, artificial leather and disposable medical examination gloves. Construction work will begin during 2003, with completion slated for Q4 2004. (June 1, 2002)

Saudi Basic Industries Corp (SABIC), the largest petrochemical company in the Middle East, is in talks with mainland companies about potential investment in China to form alliances or co-invest with partners on manufacturing its polyolefins products as part of its strategy to tap the fast-growing China market. The companies involved in the talks include major Chinese petrochemical firms. The main products of polyolefins include polyethylene and polypropylene. China is a key market for SABIC, accounting for 17% of its total sales, while Asia accounts for about 40%. (June 24, 2002)

Yangzi-BASF Co. Ltd recently received US\$1.4bn in financing for its construction of an integrated petrochemical base in Nanjing. Yangzi-BASF Co. Ltd is a 50/50 JV between **SINOPEC** of China and **BASF** of Germany. It is establishing a set of steam cracking processing systems and nine downstream plants in Nanjing. Total investment of the project is US\$2.9bn. Thus far, the company is the biggest JV between China and Germany. It is scheduled to start commercial operation in 2005. (July 31, 2002)

INDIA

Deepak Nitrite Ltd (DNL) of Pune, India, the flagship company of the **Deepak Group**, has decided to focus on specialty chemicals, which is a major contributor to its export business, by acquiring **Aryan Pesticides Ltd (APL)**. DNL plans to move up the value chain by focusing on fine chemicals from intermediates. Aryan Pesticides Ltd is now a wholly owned subsidiary of DNL and is India's only manufacturer of xylydines. It offers in-batch nitration, chlorination, alkoxylation and hydrogenation. (June 21, 2002)

India's Foreign Investment Promotion Board, part of the Industry Ministry, has approved **Ciba Specialty Chemicals Holdings Inc.** of Switzerland,

to invest Rup716m (US\$15) for specialty chemicals. (June 14, 2002)

Vantico International SA of Luxembourg is buying out its Indian partner, **Tamil Nadu Petroproducts Ltd (TPL)**, in **Petro Araldite Pvt Ltd (PAPL)** through its Indian arm. At present, Vantico holds 76% equity directly in PAPL, which makes polymers. PAPL was originally a venture between TPL, a JV company of **SPIC group** and **Tamil Nadu Industrial Development Corporation**, and **Ciba Speciality Chemicals India Ltd (CIPL)**. However, following Ciba's global divestiture from polymer business, CIPL sold its stake in PAPL to Vantico for a consideration of Rs40crore (US\$8m) in March 2001. (June 9, 2002)

INDONESIA

Eterindo Nusa Graha (ENG) of Indonesia, is to debottleneck the production in its dioctyl phthalate (DOP) plant in Gresik, East Java, to provide extra feedstock for its sister company, **Eterindo Buana Chemical Industries (EBCI)**. The 30,000tpa DOP plant is currently operating at 120%. EBCI is planning to start up a specialty chemicals plant in Q4 2002 to produce 20,000tpa to 25,000tpa of phenolic resin and alkyd resin. (June 3, 2002)

JAPAN

Asahi Denka Kogyo (ADK) of Japan and **Ciba Specialty Chemicals Plastic Additives** of Switzerland will market ADK's nucleating agent. The nucleating agent will be distributed as *Ciba*

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IRGASTAB NA 11 and **ADKSTAB NA-11** via the companies' respective sales channels. Essential in molding large parts such as appliance components and automotive bumpers and trim, the nucleating agent raises material performance as it helps boost productivity. (June 21, 2002)

Asahi Glass of Japan will develop its specialty chemicals and flat glass operations and reduce its commodity chemicals business. By Q3 2002, the company will halt magnesium oxide and bromine production at facilities in Kita-Kyushi, Japan, and move soda ash production to the US. By Q4 2003, Asahi Glass will have ceased producing cathode ray tube (CRT) glass bulbs in Funabashi, Japan, but will continue production in China, Indonesia, Korea, Malaysia, Singapore, and Thailand. (June 17, 2002)

Japanese Companies **Asahi Kasei Corp.**, **Mitsubishi Chemical Corp.**, and **Idemitsu Petrochemical Co.** agreed to integrate their polystyrene operations by Q4 2002. With a combined capacity of 530,000tpa, the merged operations will make up 45% of the 1.1 million tpa in domestic capacity. Domestic demand has shrunk as customers (electric machinery manufacturers) shift production overseas. The partners expect the increased scale to cut costs. Asahi Kasei and Mitsubishi Chemical integrated their polystyrene operations in 1998, setting up a 50/50 JV with an output capacity of 400,000tpa. The latest deal will add Idemitsu Petrochemical with its 130,000tpa capacity. Asahi Kasei will take a 45.0% stake in the new company, with Mitsubishi Chemical and Idemitsu Petrochemical holding 27.5% each. Polystyrene is a major synthetic resin, used widely in food containers, refrigerators and TV exteriors and other items. (July 3, 2002)

Kobe Steel of Japan and Belgium's **Solvay** will jointly launch a polyvinyl chloride (PVC) recycling business in Japan. The companies will begin constructing two PVC recycling plants in Japan within two years using Solvay's recycling process. The plants will have a processing capacity of 20,000tpa each. Kobe Steel is Solvay's exclusive partner in Japan. Solvay's recycling process regenerates PVC compounds using a special solvent. The companies will also consider starting

PVC recycling in China and other Asian countries.
(June 19, 2002)

Nanocor, a wholly owned, US-based subsidiary of **AMCOL International Corp.** of the US, and **Mitsubishi Gas Chemical Company** of Japan, announced that they have reached a preliminary agreement to form a marketing alliance. Activities will include the manufacture of high barrier nanocomposite plastics for consumer and industrial packaging, as well as non-packaging applications. The primary function of high barrier plastics is increasing shelf life of foods and beverages. The parties intend to conclude a definitive agreement in Q3 2002 and begin shipping products soon thereafter. (July 17, 2002)

Rhodia of France has entered into a 49/51 JV with the Japanese engineering company **Organo** to develop and market food ingredients and additives in Japan. The new entity, which will be called the **Organo Food Tech Co Ltd**, will be aimed at the Japanese market. It expects to achieve a turnover of US\$20m in the first year, rising to US\$40m within three years and to US\$50 by 2007. (July 15, 2002)

KOREA

The **Korean government** announced that it will offer tax breaks and other incentives to foreign investors in an effort to attract capital. The plan aims to help Korea reach its goal of doubling foreign investment to a fifth of the gross domestic product from 10% now, and from 2% before the financial crisis of 1997-98. In H1 2002, foreign direct investment rose 29%, to US\$5bn. Under legislation prepared by the finance ministry, foreign manufacturers investing more than US\$50m in the country will receive a seven-year exemption from corporate and income taxes. They will also receive a 50% tax cut for three additional years. (July 7, 2002)

MALAYSIA

Thirumalai Chemicals Ltd of Malaysia is in talks with multinational companies for investing in its Malaysia-based **TCL Industries Sdn Bhd**, a JV between Thirumalai Chemicals and **Yayasan Terengganu and Promet Bhd** of Malaysia. The company is looking for a partner who would not only infuse money for capacity expansion but also consume additional quantities of maleic anhydride. Thirumalai Chemicals plans to set up an additional 30,000tpa production for maleic anhydride and the manufacture of speciality chemicals such as hexahydro phthalic anhydride and tetra hydro-phthalic anhydride, among others. TCL produces around 35,000tpa of maleic anhydride and is running at full capacity presently. (July 3, 2002)

SINGAPORE

A modified polyphenylene ether (PPE) intermediates JV in Singapore between Japanese companies, **Mitsubishi Gas Chemical (MGC)** and **Asahi Kasei** will start production in Q3 2002. MGC will gain a production capacity of 21,000tpa in Singapore and will cease its production of the materials in Japan at the same time. (June 27, 2002)

TAIWAN

Air Products and Chemicals, Inc. of the US has increased its ownership to 70% in the **San Fu Chemical Company (San Fu)**, the largest industrial gas company in Taiwan. Since 1987, Air Products has had a JV with San Fu, holding just under a 50% interest in the company. The Taiwanese

shareholders will remain a partner in the JV. San Fu is an industrial gas and chemical company with a broad product portfolio supplying specialty gases, electronic piping and equipment, liquid/bulk gases, pipeline/on-site gases and chemicals. (July 9, 2002)

China American Petrochemical Co. (CAPCO) will become the world's top supplier of pure terephthalic acid (PTA) after its sixth PTA plant starts production in early 2003. CAPCO, capitalized at NT\$7.07bn (US\$210m), already has five PTA plants in Taiwan. The sixth plant will boost its output capacity to over two million tpa. The new plant will cater to demand from the U.S. and European markets. CAPCO is a JV of **BP-AMOCO** of the UK (50%) and Taiwan's state-run **Chinese Petroleum Corp.** (25%). Other shareholders include **Central Investment Co.** of the Kuomintang political party. The company's sales revenues amounted to NT\$17bn (US\$500m) last year. (July, 30, 2002)

Taiwan Styrene Monomer Corp., a producer of styrene monomer (SM), plans to establish an expandable polystyrene (EPS) factory in Qingdao of Shandong Province, China. The company expects to start construction of the EPS factory in Q3 2002. With an annual production capacity of 90,000tpa, the EPS factory calls for an investment of US\$30m. The produced EPS will be mainly for local supply. SM, the main material for making EPS, will be imported from Korea and Japan or supplied by mainland producers. Taiwan Styrene Monomer will be the first Taiwanese petrochemical manufacturer investing in the northern region of China. Taiwanese manufacturers **Taita Chemical Co**, **Chi Mei Corp**, and **Grand Pacific Petrochemical Corp** currently operate EPS factories in Guangdong Province and Jiangsu Province. (July 23, 2002)

THAILAND

National Petrochemical (NPC) of Thailand will spend about US\$70m to build a polyethylene factory in Rayong in the next two years. NPC has hired Korean conglomerate **Samsung Engineering Co.** to start building the plant by Q4 2002. The total cost

is estimated at US\$130m, with an initial annual production capacity of 250,000tpa of high-density polyethylene (HDPE), to serve both the domestic and export markets. The plant is expected to begin operations in 2004. (July 31, 2002)

VIETNAM

The JV PVC plant owned by **Petronas** (50%), **PetroVietnam** (43%) and **Tramatsuco** with (7%) was finished ahead of schedule and is expected to begin operations by Q3 2002. The US\$70m plant is located in the Phu My Industrial Area, Baria-Vung Tau province. The plant has a production capacity of 100,000tpa and will produce four different grades of PVC resin to be used as raw material by plastics fabricators. (July 10, 2002)

OTHER

Atofina, a subsidiary of **TotalFinaElf** of France, is planning to increase its activities in Asia and the Middle East from 10% of sales to 15% of sales by 2007. **Atofina** and **Qatar Petrochemical Company** are building a new cracking plant in Qatar where production is scheduled to start in 2006. The company also plans to invest US\$150m to increase PP capacity at Feluy, Belgium to 800,000tpa. Additional expansion plans include plans to increase cracking plant capacity at Port Arthur, Texas and Carling, France, as well as plans to expand speciality chemicals production and to build an acrylics plant at Baytown, Texas. (June 21, 2002)

The sale of German **DSM's** petrochemicals business to **Saudi Basic Industries Corporation (SABIC)** has been completed. As a result, the activities of **DSM Petrochemicals (DPC)** in Geleen, Netherlands and Gelsenkirchen, Germany have been transferred to SABIC retroactively from January 1, 2002. The European Commission has approved the sale effective that date. As a consequence of

the transaction, a total of about 2,300 DSM employees have been transferred to SABIC: the DSM Petrochemicals workforce (2,060 employees, of whom 1,530 are based in Geleen and 530 in Gelsenkirchen), plus a total of 220 people from other DSM units who work exclusively for DPC. (July 4, 2002)

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs and acquisitions. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact Euan Rellie at erellie@bdallc.com.

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