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ASIAN SPECIALTY CHEMICALS NEWSLETTER

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CONTENTS

INTRODUCTION

The Western chemical industry has been engaged in a large-scale restructuring process since the early 1990s. Only in the last two years have we seen Asian counterparts taking actions to strengthen their competitive positions against the multinational players. In this issue, we report on the restructuring activities in the chemical industry in Japan.

We hope that you find *Asian Specialty Chemicals Newsletter* informative. BDA is a corporate finance advisory firm which helps clients to identify and to execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact me at erellie@bdallc.com.

Euan Rellie
Managing Director

CHINA/HK

JLM Chemicals China Ltd, a JV between **JLM Industries** of the US and **PT Indo-Chemicals** of Indonesia, has started operations. The commercial headquarters of JLM Chemicals China are located in Shanghai with a satellite facility in Ningbo. JLM Industries is a distributor of speciality chemicals and olefins as well as a producer, marketer and distributor of commodity chemicals. PT Indo-Chemicals is a leading distributor of petrochemicals in Indonesia. (September 13, 2000)

LG Chemical of Korea plans to increase the production capacity for ABS resin at its JV factory in Zhejian, China to 300,000tpa in 2001. LG Chemical already has a 300,000tpa ABS resin plant in South Korea. (September 25, 2000)

Lubrizol Corp is expanding its existing JV with **PetroChina** in Lanzhou, Gansu Province, China. Together, the two companies have invested an estimated US$60m in the 50:50 venture. The newly expanded JV will be the largest integrated lubricant additive manufacturing and marketing company in China. It will use technologies contributed by both parent companies. (September 12, 2000)

Shanghai UCB Speciality Chemicals, a subsidiary of UCB Chemicals from Belgium, has signed a contract with **Kvaerner E&C Beijing**, the Beijing division of Kvaerner of Norway, to build a plant at Fengxian, China that will supply 15,000tpa of acrylic resins. The plant is expected to be completed in August 2001. (September 13, 2000)

Shipley Company and **Rexam Image Products** of the US, together with **Union Petrochemical Cor-**

poration of Taiwan (an affiliate of **MITAC International**), will form a three-way partnership to produce dry-film photoresists in Zhonshan, China for distribution throughout Asia. The group plans to build a facility for manufacturing photoresists to be used in the making of printed wiring boards for personal computers, cellular phones, electronic equipment and many other devices. (September 9, 2000)

INDIA

Diamond Dye-Chem Ltd (DDL) of India, which claims a 55% market share in the Indian market for optical brightners used in the textile, paper and detergent industries, has formed a JV with **Ciba Specialty Chemicals** of Switzerland, which will enable DDL to expand its operations worldwide. Global consumption of optical whiteners is expected to reach 230,000tpa by 2003 compared with 170,000tpa in 1997. In Asia, demand is increasing at 10% pa, compared with only a 2%-3% pa growth in demand in Europe and the US. (September 20, 2000)

Galaxy Surfactants Ltd (GSL) of India has established an agreement with **Ingenious Inc** of the US, whereby Ingenious Inc will market and sell all grades of phenoxyethanol manufactured by GSL in Canada and the US. GSL manufactures specialty chemicals and surfactants for personal and home care products for the Indian market. (September 20, 2000)

Heubac Colour of India has signed and agreement with **Avecia** of the UK, a leading manufacturer of advanced medicines (DNA medicines, peptide pharmaceuticals and biologics) and former specialty chemicals division of UK-based **Zeneca** (now AstraZeneca). The agreement allows Avecia to transfer its organic pigments division from its UK unit to Heubac's factory in Ankleshwar, India. The relocation aims to increase the company's competitiveness in the global market. (September 6, 2000)

ICI India, a 51% subsidiary of **ICI plc** of the UK, plans to focus on starch, decorative paints, specialty chemicals and aroma chemicals required in perfume making. This restructuring plan is in line with that of ICI plc. The company intends to combine the activities of ICI plc's specialty chemicals business, Uniqema, and will introduce products from other ICI subsidiaries including National Starch and Quest in India. (September 14, 2000)

Indo Swiss Textile Chemicals Ltd (ISTCL), an Indian JV between **Ciba Specialty Chemicals** from Switzerland and **Indian Dyestuff Industries Ltd (IDIL)**, has become a wholly-owned subsidiary of **Ciba Specialty Chemicals (India) Ltd (CSCIL)**. CSCIL acquired IDIL's 49% stake and **Ciba India Pvt Ltd**'s 1% stake in ISTCL. In 1999-2000, ISTCL's revenues amounted to Rs4.5bn (US$98m). Revenues of the parent company totalled SFR7.2bn (US$4.1bn) in 1999 and its R&D expenditure amounted to SFR250m (US$140m). (September 20, 2000)

INDONESIA

Candra Sari, an Indonesian specialty chemicals maker, has merged with **Ciba Specialty Chemicals Indonesia**, the Indonesian subsidiary of **Ciba Specialty Chemicals** of Switzerland. Ciba owns 80% of the expanded CSCI and Candra Sari owns the remaining 20%. (September 10, 2000)

JAPAN

Earth Chemical Co of Japan will acquire the pesticide operations of **Shell Japan Ltd**, a wholly owned subsidiary of the **Royal Dutch/Shell Group**, for an undisclosed sum. On January 1, 2001, Earth Chemical will purchase the manufacturing and sales rights to ten of Shell Japan's pesticide products, as well as Shell Japan's pesticide-manufacturing facility in Shizuoka Prefecture. Shell Japan generated revenues of ¥1.5bn (US$14m) in 1999. (August 1, 2000)

Mitsubishi Chemical of Japan is to invest ¥10bn (US$95m) to construct a 100,000tpa bisphenol plant in Kurosaki. The facility is due for completion by Q4 2002 and will increase the group's overall bisphenol capacity to 223,000tpa. Mitsubishi Chemical is also conducting developments in Korea and Thailand. (September 14, 2000)

Nippon Synthetic Chemical Industry Co (NSC) of Japan will start producing and selling a special film used to deflect plates in liquid crystal displays. The company is to build a ¥2bn (US$18.7m) production line at its Oggaki plant in anticipation of a growing demand for LCDs due to the increased use of cellular phones and personal computers. The line will be completed by September 2001. NSC expects that revenues will reach ¥600m (US$5.6m) within a year and ¥1.5bn (US$14m) in the third year once the line runs at full capacity. (September 6, 2000)

OxyChem of the US plans to sell its Durez phenolic resins and moulding compound activities to **Sumitomo Bakelite** of Japan. The sale includes Oxychem's share of **SumiDurez**, a 50:50 JV between Oxychem and Sumitomo Bakelite in Singapore and Japan, as well as plants in North America and Europe. Oxychem will be focusing on chloralkalis, vinyls and performance products. (September 29, 2000)

KOREA

Air Products Korea (APK), which operates two polymer dispersions plants in Korea, and **Wacker Polymer Systems** of Germany, the world's biggest producer of redispersible powders for construction applications, will form a JV, **Wacker Polymer Systems Korea**, to supply liquid polymer dispersions for construction applications. APK will hold 80% stake in the JV. Wacker Polymer Systems will take over Air Products Korea's construction dispersion business. (August 23, 2000)

Doobon Fine Chemicals of Korea, **Ciba Specialty Chemicals** of Switzerland and the **Baerlocher Group** of Germany have signed a JV agreement to produce stearates and PolyAd Pre-blends. Ciba and the Baerlocher Group will invest over US$3m to modernize Doobon's stearate production facility and build new pre-blend plants in Korea. Ciba is to lead the marketing of the JV's products in the Korean styrene and polyolefin sectors, while Baerlocher's proprietary technology is to be facilitated in the venture. (September 11, 2000)

Mitsui Chemicals of Japan and **Yongsan Chemicals** have set up a 50:50 acrylamide JV called **Yongsan Mitsui Chemicals**. The JV will upgrade Yongsan's 700tpa acrylamide plant at Ulsan, Korea, and will also erect a 5,000tpa acrylamide plant for commissioning in Q4 2001. (September 18, 2000)

MALAYSIA

Fatty Chemical (Malaysia) Sdn Bhd, a subsidiary of **Kao Corporation** of Japan, will increase its capacity for fatty alcohols by 50% when Kao Corporation launches its ¥8bn (US$73m) investment plan. Under the plan, Kao Corporation aims to increase its total capacity and expand the products offered by its chemicals business. This plan will include an investment of ¥4.2bn (US$39m) in the Penang plant of Fatty Chemical (Malaysia) Sdn Bhd to increase its annual capacity for fatty alcohols to 165,000tpa. (September 9, 2000)

Toray Plastics of Malaysia plans to increase the capacity of its ABS plant in Perai, Malaysia from 170,000tpa to 250,000tpa. The expansion, which is expected to be completed in 2002, will increase the firm's overall global capacity to 320,000tpa. (September 22, 2000)

To submit stories to the *Asian Specialty Chemicals Newsletter* please contact Kathleen Ng on (65) 533-8500 or kng@bdallc.com.

PHILIPPINES

Rhodia of France, the world's second-biggest speciality chemical company, is considering a potential JV with **Shemberg Corp**, a financially troubled Cebu-based carrageenan processor. Carrageenan is extracted from seaweeds and is used as a thickening agent for foods, cosmetics and household products like lotions, creams and toothpaste. (September 1, 2000)

SINGAPORE

Continental Chemical Corporation (CCC), a regional investment holding company headquartered in Singapore, is investing US$34m to build Singapore's first plasticiser plant on the Jurong Island petrochemical hub. CCC is investing in the plant via its subsidiary, **Asia Plasticiser**. The plant is to be completed in Q2 2001, and will have production capacity of 100,000tpa of plasticisers, mainly dioctyl phthalate. (September 14, 2000)

Honeywell International of the US has opened its Asia Pacific headquarters in Singapore. The group is involved in speciality chemicals, polymers and electronic materials, as well as aerospace products and services, control technologies for buildings, homes and industry. It has manufacturing plants in China, Australia, India, Japan, Korea, Singapore and Taiwan. It is looking to further expand its presence in China and India. The region contributed more than 7% of Honeywell's global revenues in 1999. (September 20, 2000)

TAIWAN

Asahi Chemical of Japan has initiated a major expansion program to shift the company's focus from basic chemicals to specialties. It is also shifting its geographical emphasis to Asian countries outside of Japan. One of the main projects that Asahi is considering is the building of a 50,000-70,000tpa MMA (methyl methacrylate) unit in Taiwan. The project would be in collaboration with **Taiwan Synthetic Petrochemical Corp** and is provisionally scheduled for completion by Q4 2002. (September 20, 2000)

Ashland Speciality Chemicals, a subsidiary of **Ashland Inc** of the US, has built two plants in Korea and Taiwan, scheduled for completion in September 2000. The US$10m Taiwan plant will manufacture electronic chemicals. Total investment by Ashland in its speciality chemical business is expected to reach US$100m in 2000. (September 22, 2000)

THAILAND

GE Plastics, a subsidiary of US-based **General Electric Company**, plans to quadruple its output of engineering plastic products in Thailand over the next three years after recording strong growth in specialty chemical sales in the country. Between 1998 and 1999, revenues in Thailand grew 30%, despite the economic slump. GE Plastics, started operating a Bht800m (US$19m) production plant in Thailand in mid-1999. 20% of the output was exported to companies in the auto and electronics industries in ASEAN. The remaining 80% was sold to local manufacturers. (September 13, 2000)

FOCUS

Restructuring activity in Japan

Global Market

The worldwide chemical industry has been in a state of **constant change since the early 1990s**. The industry experienced restructuring, globalisation and consolidation as companies rushed to strengthen their competitive position. The **catalysts driving these mega-restructurings** have been the consolidation of the fragmented European specialty chemical industry, the search for strategic fits, the desire of many of the companies to focus on life-sciences and the need for standalone specialty chemical companies. **European and US chemical companies have been more proactive in their restructuring activities, compared to their Asian counterparts.** The westerners gained a secure foothold in the Middle East and China markets, and seized opportunities in other growing Asian markets. Recent events include the merger of the specialty chemicals businesses of **Hoechst AG** and **Clariant International**; acquisition of **Allied Colloids** by **Ciba Specialities**; and **ICI**'s sale of its tioxide, polyurethanes and select petrochemical businesses to **Huntsman Corp**.

Western chemical companies have been particularly active in Japan. European companies appear to have chosen alliances with Japanese companies as their clearcut strategy and Japanese companies have benefited from gaining access to the global market. **BASF**, for example, has announced that it will accelerate the expansion of its life science and specialty chemicals business in Japan, making selective investments and pursuing opportunities for mergers and acquisitions.

Japan Lagging Behind in Restructuring

The **Japanese chemical industry has been in a slump** for the last decade, with only a short pause in 1995 during the booming economy in Asia. GDP in Japan has been stagnant since then and the situation remains difficult. Compared with other Japanese manufacturing companies, some chemical manufacturers have restructured extensively, but the pace of reform has been much slower than the European and US chemical industries.

The reasons contributing to the lag in restructuring are largely managerial and legal factors, untypical in the West. Under the labor laws in Japan, any sell-off of business units or lay-off of staff requires the employers to pay a significant severance package to every employee affected. Any such move severely reduces bottom-line figures in the short term. Another managerial factor is the top-down and consensus-based decision making process, a leadership style commonplace to top management in Japan. Thirdly, there is less emphasis at the management level on shareholder value, as compared to European or the US. Without the added pressure to perform, most Japanese chemical manufacturers are not in a hurry to take drastic moves that would jeopardize the daily operations of the companies. In terms of legal barriers, the prohibition of the set-up of holding companies in Japan until 1997, resulted in the lack of a favorable framework for a more rapid reform process.

Urgency in restructuring

The chemical industry needs to hasten a qualitative change by **shifting emphasis from multi-purpose products to specialty chemicals**. Japanese companies tend to handle many product lines, mainly in the commodity business. Instead of enjoying the fruits of the high-profit portion of the value chain, these companies are merely in the position as raw material suppliers to growing industries. Therefore, it has become increasingly important for Japanese chemical companies to **develop high-performance products and materials**, such as fine and specialty chemicals, and to take a **high-added value strategy** based on novel technologies in order to survive global competition.

Japanese chemical manufacturers **concentrated largely on their domestic market for a long time**, and domestic demand for chemical products has dropped sharply. Though a recovery in domestic demand is widely expected, increasing pressure from an influx of overseas products and the entrance of Western companies into their territory, these manufacturers will also **have to penetrate into the global market in order to survive the competition**. Their presence in the international market is still limited, as compared to the larger Japanese pharmaceutical companies' range of products in the domestic market. The fastest route to global growth is through **alliances with their Western counterparts to gain access to the global market**. This would also mean giving up a market in which they have a large share to an international competitor.

From the beginning of 1999, many chemical manufacturers have announced business plans with drastic restructuring measures, taking steps either to **cut back capacity at operations** that cannot compete effectively or to withdraw altogether by **spinning off the relevant divisions into separate companies**. Many have also taken steps to improve their competitiveness through **mergers with other local or foreign players**. Nonetheless, Japanese majors have not yet all followed through on their announced restructuring efforts.

Restructuring efforts by some large chemical makers

(I) Mitsubishi Chemical

1999

- Mitsubishi Chemical and Tokyo Tanabe agreed to merge their pharmaceutical divisions.
- Asahi Chemical Industry and Mitsubishi Chemical merged their A&M styrene production operations, reducing their polystyrene production capacity significantly.
- Closure of some of its ethylene and terephthalic acid production facilities.
- Suspension of VCM and caustic soda facilities, consigning the production to Tosoh.
- Mitsubishi Chemical and Toa Chemical announced plans to merge their PVC divisions and set up a JV.
- Mitsubishi Chemicals announced its consolidated medium-term (3-year) plan to start in FY00, with a target ROA in FY02 of 6%.

2000 (up to Q3 2000)

- Asahi Chemical Industry, Mitsubishi Chemical, Nippon-Mitsubishi Oil, and Japan Energy agreed to invest a sum of US$57m in the construction of ten pipelines for feedstock supply to ethylene units at the Mizushima area.
- Roche sold its production plant at Fukuroi in Japan for pharmaceutical intermediates, and its D-ribose production technology, to Mitsubishi Chemical.
- Mitsubishi Chemical agreed to sell its $25m pa photoresists business to Rohm and Haas.
- Mitsubishi Chemical and Honeywell are to finalise the merger of their wet process chemicals businesses.
- The PVC operations of Toagosei and Mitsubishi Chemical were spun off into V-Tech.
- Significant restructuring plans to focus more on the specialty chemicals sector have been announced.

(II) Sumitomo Chemical

1999

- Sumitomo Chemical and Mitsui Chemicals agreed to merge their SBR latex and ABS resin divisions into a JV.
- Sumitomo Chemical, Nippom Zeon, and Tokuyama revised their stakes in Shin Daiichi Vinyl, leaving Tokuyama the main shareholder.

2000 (up to Q3 2000)

- The loss-making colour filters operation of Sumitomo Chemical will be spun off into the JV New STI Technology in which Sumitomo will hold a 40% stake.
- Taoka Chemical and Sanken Chemical (both belonging to the Sumitomo Chemical group) are to merge with effect from Oct 2000. Both companies have consolidated their pharmaceuticals and agrochemicals sectors.
- Sumitomo Chemical announced the completed acquisition of Abbott Laboratories' agricultural business.

(III) Mitsui Chemicals

1999

- Mitsui Chemicals' three-year restructuring plan for its operations is due to be completed by the end of fiscal 2000.
- Under this, production of vinyl chloride and caustic soda has been suspended and business integration companies have been formed for its PVC, ABS and polystyrene operations.

2000

- A three-year, medium-term consolidated plan has been announced which will be implemented from fiscal 2001.

- Mitsui Chemicals sold off its plasterboard business.
- Mitsui Chemicals sold off part of its pharmaceutical business by the German company Schering.
- Mitsui Chemicals is said to be in talks to sell its styrene plant as part of a cost-cutting program.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies in expanding their businesses in Asia. 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 Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore or Frank Zhang in Shanghai.

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