

# 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](mailto: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

**China Petroleum and Chemical Corporation (Sinopec Corp)** and **ExxonMobil China Petroleum & Petrochemical Company Ltd** strengthened their strategic alliance to move forward their JV projects in Fujian and Guangdong Provinces. Under the agreement, ExxonMobil and Sinopec will complete the projects. (October 21, 2002)

**Degussa** of Germany has set up a holding company, **Degussa (China) Holding**, to act as an umbrella for its 11 sites in China. The holding company will employ 800 people and supply customers throughout Asia. The company's product portfolio in China ranges from carbon black and amino acids to high-performance chemicals for water treatment. (November 11, 2002)

**DuPont** recently opened its first **DuPont Engineering Polymers Technical Center** in China. The center in Shenzhen will support customers' R&D activities in China. The Shenzhen center's services range from assessing material characteristics and identification, failure analysis, material selection, technical training, application development and technology transfer through to mold evaluation and pilot production. Components can also be tested and analyzed to locate production defects. (October 16, 2002)

**Huntsman** of the US is considering building a titanium dioxide (TiO<sub>2</sub>) plant in China as part of a consortium. It will not construct a facility on its own in China because product prices have been below greenfield reinvestment levels for the past two years. Any new TiO<sub>2</sub> investment in China would only be possible after 2006, when prices are estimated to recover enough to justify greenfield investment. Currently, no major is pursuing a new TiO<sub>2</sub> project in China. The more immediate priority for Huntsman in Asia is de-bottlenecking its

existing TiO<sub>2</sub> facilities, including its Malaysian plant. (November 3, 2002)

**Huntsman** may contribute to **Yantai Wanhua Polyurethane's** proposed 160,000tpa methyl di-phenylene isocyanate (MDI) project in China. Talks on providing investment and/or technology to the Chinese company began earlier this year. No details have been reached. Although Yantai Wanhua has its own MDI technology, it favors Huntsman's. As for a stake in Yantai Wanhua, it would fit Huntsman's polyurethanes strategy. The State Development Planning Commission approved the project earlier this year and approval is expected from the State Council in early 2003. Construction is slated to start shortly thereafter, but may be delayed if Huntsman becomes involved. (November 25, 2002)

**Mitsubishi Rayon Corp (MRC)** is considering bringing onstream a 70,000tpa-100,000tpa methyl methacrylate (MMA) plant and a 10,000tpa-20,000tpa MMA sheet unit, both in China, in 2005 and 2004. MRC is expected to make the decision on the MMA project in early 2003. The MMA sheet project will most likely be built in Nantong, Jiangsu Province, where a 40,000tpa polymethyl methacrylate (PMMA)-pellet plant is being built. MRC is considering the Huizhou Petrochemical Industry Park (HCIP) for its MMA plant. Feedstock for the pellet plant will come from MRC's two MMA plants in Ohtake, Japan and from its JV plant run by **Thai MMA** in Bangkok, Thailand. (December 2, 2002)

**Mitsui & Co** will set up a synthetic resin sales company in Shanghai, in Q4 2002 to cater to its Japanese clients, including auto manufacturers and household appliance makers, who are increasingly shifting operations to China. This will be its second sales company in China; its first is in Hong Kong. It also hopes to tap demand from non-Japanese companies operating in China, and is aiming for US\$12m in sales by FY 2006. (November 5, 2002)

**Nippon Shokubai** of Japan is looking at growing its acrylic acid and acrylates business in China and setting up a superabsorbent polymers (SAP) plant in the country. The startup of the China SAP plant is targeted for 2004. The capacity of the plant would be 20,000tpa-30,000tpa. SAPs consume 32-33% of the world's acrylic acid output. However, the slow penetration in China of disposable diapers, which account for 95% of global SAP output, could pre-empt the proliferation of SAP projects in the country. The company is cur-

rently the third largest acrylic acid player in the world. (November 17, 2002)

**Royal Dutch/Shell** and its JV partner **China National Offshore Oil Corporation (CNOOC)** will proceed with a \$4.3bn petrochemicals complex in southern China, the largest foreign investment project on the mainland. The project is meant to meet demand along the booming coastal areas, primarily customers in Guangdong. The project is meant to meet demand along the booming coastal areas, primarily customers in Guangdong. When the plant opens in 2005, it will overtake **BP's** US\$2.7bn JV project near Shanghai. The project, in Nanhai, Guangdong Province, will also help CNOOC to diversify away from its core offshore oil exploration business and its growing interests in the import and distribution of liquid natural gas. Once completed, capacity will be 2.3m tpa of ethylene and propylene. Shell will have a 50% share of the project, CNOOC 45%, and the Guangdong Investment and Development Company 5%. (November 2, 2002)

**Toray** of Japan will expand its production facility for polyester (PET) film in China. It will invest US\$40m in a JV with China's **Yihua Group** to install one new 15,000tpa production line, aiming to start operation in the first half of 2004. (October 29, 2002)

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## INDIA

The owner of **Fertilizers and Chemicals Travancore Ltd (FACT)**, the Indian government, has invited expressions of interest (EOI) for the purchase of a controlling stake in the loss-making company. The government holds a 97.4% stake in the company. It has stipulated that a company, consortium or JV must have a combined net worth of US\$41m and sales in excess of US\$124m to be eligible to submit an EOI. (November 8, 2002)

**Gail India** may look at setting up JVs in the future as part of its new growth strategy. The state-owned gas and petrochemicals player has opposed a government-sponsored proposal that it should divest its petrochemical business and operate exclusively as a gas player. The proposal was included in the restructuring plan submitted to the Ministry of Petroleum and Natural Gas by **McKinsey & Co**. Gail has made a firm commitment only to invest funds in the expansion of its gas-based petrochemical complex at Pata in

Auraiya district in Uttar Pradesh. The company is, however, pursuing other petrochemical projects that may be implemented over the next few years. (November 25, 2002)

The controlling shareholder of **Punjab Alkalies & Chemicals Ltd (PACL)**, the **Punjab State Industrial Development Corp (PSIDC)**, is seeking expressions of interest (EOI) from Indian and foreign companies for its 44.3% stake in the chloralkali major. Institutional and corporate investors hold the remaining 55.7% equity in PACL. The company's creditors are drawing up a debt-restructuring proposal. PACL has defaulted on the repayment of principal and interest for its total debt of US\$28.9m. PACL operates two membrane cell technology-based chloralkali units at Naya Nangal, Punjab, with a total capacity of 99,000tpa of caustic soda, 87,714tpa of chlorine and 27,720tpa of hydrogen gas. (November 17, 2002)

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## INDONESIA

**BP Chemicals** has decided to sell its 75% stake in Indonesian PE producer **Petrokimia Nusantara Interindo (Peni)**. **Sumitomo Corp** and **Mitsui & Co**, which hold 12.5% each in Peni, have also decided to sell their stakes. No deadline has been set for the proposed sale, but BP and its Japanese JV partners are talking to a number of interested parties. The reason for the proposed sale of equity in the 450,000tpa Indonesian lldPE/hdPE operator is the need for Peni to be vertically integrated with an ethylene producer. Shareholders have decided that integration would be best achieved under new ownership. (November 3, 2002)

**GT Petrochem Industries** is being prepared for divestment by 2003 by the **Indonesian Bank Restructuring Agency (IBRA)** after four years of uncertainty. Ibra is close to gaining full control of the shares of former owner **Sjamsul Nursalim**, who owes the agency

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US\$3.14bn. After the transfer, IBRA would control 70.6% of the monoethylene glycol producer's shares and the company would then be divested. (November 14, 2002)

**Trans-Pacific Petrochemical Indotama's (TPPI)** may soon begin constructing their much-delayed aromatics project, providing agreement on a US\$400m loan package is signed in Q1 2003. Negotiations are taking place between the **Indonesian Bank Restructuring Agency (IBRA)**, **Pertamina** and a consortium of Japanese financial institutions. An in-principle agreement was originally due to be signed at the end of October. The project has been delayed several times due to financing problems. (December 9, 2002)

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## JAPAN

**Rohm and Haas Company** and **Kureha Chemical Industry Company Ltd** have signed a definitive agreement for Kureha Chemical to sell its global plastics additives business to Rohm and Haas for US\$65.5m. Under the terms of the agreement, Rohm and Haas will acquire Kureha's commercial operations throughout the Asia-Pacific region and other areas along with manufacturing facilities and laboratories in Singapore. Closing will occur by year-end. The transaction will increase the revenue of Rohm and Haas's Plastics Additives business by approximately US\$70 million. (November 5, 2002)

**Teijin Ltd** of Japan and **DuPont Kabushiki Kaisha (DuPont KK)** announced that they will dissolve their 50-50 JV **Teijin DuPont Nylon KK (TDN)**. Teijin will take over ownership of TDN in November 2002 and will continue operation until December 2003 in order to supply customers served by TDN. Meanwhile, support with the cooperation of Teijin and DuPont will be provided to customers for conversion to products from other DuPont sites or other companies. After the dissolution, DuPont will directly market its products to customers through its **Textiles and Interiors (DTI)** organization in Japan. Recent global oversupply has also made it difficult for TDN. (October 15, 2002)

## KOREA

**Hysoung Corp** will supply US\$350m of polyester tire cord to **Michelin** over a seven-year period and will buy the French tire maker's US plant for an undisclosed amount. Hysoung expects to increase its North American market share of tire cords to 20% from its current 13%. It also expects its global market share to rise to 24% from 20%. (November 26, 2002)

**Koch** of the US and a consortium comprising **LG Chem** and **Honam Petrochemical** have emerged as the preferred buyers in final bidding for debt-strapped **Hyundai Petrochemical**. However, the creditors of Hyundai, led by **Woory Bank** (fka **Hanvit Bank**), are unhappy over the low bids received, and as a result, are considering calling off the sale. If Hyundai continues to post a profit through the end of 2003, creditors would consider a listing on the Korea Stock Exchange. Parties previously eliminated from the bidding process may be invited back to make fresh offers for Hyundai if the LG/Honam and Koch offers remain short of expectations. Creditors want US\$2.7bn for assets that include two crackers with a total capacity of 1m tpa and downstream PE and PP plants. However, the bidders are willing to pay only US\$827m. (December 9, 2002)

**TotalFinaElf** recently said it will pay US\$741m to set up a JV with South Korea's **Samsung General Chemicals**, giving the French energy company access to the fast-growing Asian petrochemicals market. TotalFinaElf, through its chemicals arm **Atofina**, has signed a preliminary agreement with Samsung General Chemicals to establish a 50-50 JV to produce and market petrochemicals and other products from an integrated plant in Daesun, southwest of Seoul. The investment is strategically important for TotalFinaElf, as it boosts Atofina's capacity in the fast-growing Asian market to 13% from zero. A key part of the JV with Samsung General Chemicals will be marketing ethylene, styrene, paraxylene and polyolefins in the fast-growing Chinese market. TotalFinaElf's rivals **ExxonMobil**, **BP** and **Royal Dutch/Shell** are planning or already have significant petrochemicals investments in China. (December 02, 2002)

## PHILIPPINES

**Petronas** of Malaysia, **BP Chemicals** and other shareholders of **Bataan PE Corp (BPC)** have decided to pull out of the Philippine JV. The shareholders intend to enter into discussions with BPC's financiers and the Philippine authorities on the future of the company and its assets. BPC's 250,000tpa hdPE/lIPE swing plant has been shut since August 2001. Petronas had considered buying BP's stake, but land tax and electricity pricing issues blocked the sale. The reason for the exit is low-priced PE imports. Other factors are the uncertain economic climate in the Philippines and the slow progress of BPC's debt-restructuring deal. Petronas and BP each own a 38.5% stake in BPC; **Sumitomo Corp**, 5% and a local company, **Bataan PE Holdings**, the remaining 18%. (December 2, 2002)

President Gloria Macapagal Arroyo said she hopes to deliver an executive decision on tariffs by December 2002 affecting Philippines' downstream and upstream plastics producers. The country's tariffs on PP, PE, PS and PVC, which are currently at 15%, are due to be reduced to 0-5% by January 1, 2003 under the Association of Southeast Asian Nations (ASEAN) Free Trade Area Common Effective Preferential Tariff (CEPT) agreement. Domestic petrochemical producers had lobbied for the extension, which was strongly opposed by the downstream processors. Plastics producers, of which there are about 500 in the Philippines, want the tariffs reduced so that they can lower production costs through cheaper raw material imports. However, upstream PP and PE producers, such as **Petrocorp**, **JG Summit Petrochemicals** and **Bataan Polyethylene Corp**, want the deadline for the tariff cuts delayed. Complicating the situation is Singapore, which has said it would seek compensation if the scheduled tariff cuts were delayed. Singapore is the biggest petrochemicals supplier among the ten ASEAN countries. (December 9, 2002)

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## SINGAPORE

**Mitsui Chemicals** of Japan restarted its 200,000tpa phenol plant and 120,000tpa acetone plant in early November at Jurong Island, Singapore. The plants

were shut in October. They will be brought online with extra capacities of 50,000tpa of phenol and 30,000tpa of acetone. The expansions will boost Mitsui's total phenol capacity to 750,000tpa and its acetone capacity to 450,000tpa. (November 8, 2002)

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## TAIWAN

**Air Products** of the US has recently brought on-line the world's largest bulk gas production facility, pipeline bulk gas distribution network and related electronics specialty materials production center to serve electronics customers in the Tainan Science Based Industrial Park, located in southern Taiwan. The investment is in excess of \$50 million. The plant can produce 50,000 m<sup>3</sup> per hour of gaseous nitrogen and 400 tons of liquid nitrogen and liquid oxygen. Several leading semiconductor foundry customers, including **Taiwan Semiconductor Manufacturing Company** and **United Microelectronics Corporation**, have built large semiconductor fabrication facilities in and around the park and have committed their bulk gas business to Air Products. Air Products serves its customers in Taiwan through **San Fu Gas Co Ltd**, a JV in which Air Products increased its ownership to 70% in July 2002. (November 5, 2002)

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## THAILAND

**INEOS Phenol**, a division of **INEOS** of the UK, has delayed construction of its 400,000tpa phenol plant in Mab Ta Phut, Thailand. The company had considered separate projects in both China and Southeast Asia, but will now build only one plant in the next few years. Thailand's Board of Investment (BOI) has granted INEOS a two-year extension to further evaluate the project. In China, possibilities include Shanghai and the Quangang Petrochemical City in Quanzhou, Fujian Province. The company is no longer considering Singapore. The Mab Ta Phut project was initiated by **Phenolchemie**, which was acquired by Ineos in 2001. The BOI approved the project in December 1999 and it was originally scheduled to start in 2000. (December 2, 2002)

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## VIETNAM

**PetroVietnam's** 130,000bbl/day refinery project in Dung Quat, Vietnam, is again expected to be delayed, this time to Q1 2006 from end-2005. The refinery, a 50-50 JV between PetroVietnam and Russia's **Zarubezhneft**, was originally expected to start up in mid-2005. The 110,000tpa PP project down-stream of the state-owned company's first refinery project is also expected to be delayed to Q1 2006. The PP plant was to have come on-stream at around the same time as the refinery at end-2005. The PP project has yet to be approved by the Russian government. The Vietnamese government has already approved the refinery project. (November 18, 2002)

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## OTHER

**BP** is considering building a worldscale acrylonitrile (ACN) plant in Asia, and although Asia is the region most favored, BP will evaluate other global options. The proposed plant would likely use the propane ammoxidation process, which is expected to bring greater returns compared with earlier ACN technologies. BP currently has a 50% stake in **Shanghai Secco Petrochemical**, which is building a 900,000tpa cracker in the Shanghai Chemical industrial Park (SCIP). Plants downstream of the Secco cracker include a 260,000tpa ACN facility. If BP's second cracker project in China proceeds, it is very likely that an ACN plant would be built as part of the project. (December 2, 2002)

**Huntsman** of the US is looking at the possibility of acquiring an integrated olefins facility in Asia. The company has no olefins or polyolefins assets in Asia and is looking at buying a cracker along with downstream capacity. Huntsman would not consider a cracker without the downstream capacity. The company exports 300,000tpa of ethylene from its cracker at Wilton, England. Following its debt-restructuring deal with investment company **MatlinPatterson Global Opportunities Partners**, Huntsman is more financially

stable and in a better position to be making acquisitions. Huntsman's interest in acquiring an olefins complex in Asia is predicated on the upbeat outlook for olefins and polyolefins. (October 27, 2002)

**Snamprogetti**, the engineering contractor subsidiary of Italian energy and petrochemicals group **Eni**, has won a turnkey contract to build a fourth liquefied natural gas (LNG) train at Ras Laffan, Qatar. To be built for Qatar's **Ras Laffan Liquefied Natural Gas Co Ltd II**, the plant will produce around 4.7m tpa of LNG. It is due on-stream in 2005. Together with its JV partners **Chiyoda** and **Mitsui & Co**, Snamprogetti will provide engineering, procurement and construction. (November 6, 2002)

**Stolt-Nielsen Transportation Group (SNTG)** said it has received a cease-and-desist order from the US Treas-

ury Department regarding the company's dealings with Iran. The company was notified in April 2002 that its operations were being examined by the Treasury's Office of Foreign Assets Controls (OFAC). OFAC enforces US economic and trade sanctions against targeted foreign countries or entities. The US maintains a near-total ban on US trade with Iran and bars US-based firms from dealing with Iran. (November 22, 2002)

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Euan Rellie, Managing Director  
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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](mailto:erellie@bdallc.com).

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