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Business Development Asia

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ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A bimonthly newsletter of developments in the chemicals sector

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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

Atofina of France has halted a planned cracker project in China after conducting only preliminary studies. The company had held informal meetings with potential local JV partners. But due to on-going investments in Qatar and other reservations, it decided not to proceed with its project. Atofina currently has a cracker project in Ras Laffan, Qatar. (September 29, 2002)

BASF AG of Germany was recently issued a business license by the Shanghai Administration for Industry & Commerce to establish a unit in Shanghai. The new unit, **BASF Chemicals Co. (BACH)**, will be the world's largest integrated production facility for tetrahydrofuran (THF) and polytetrahydrofuran (PolyTHFa). BACH is scheduled to come online in 2004 and will have a production capacity of 80,000tpa of THF and 60,000tpa of PolyTHFa. It will supply both products to domestic consumers as well as to other countries in the Asia Pacific region. In Asia, BASF currently has production facilities for THF and PolyTHFa in Japan and Korea. (September 18, 2002)

DuPont Fluoroproducts and **China Nuclear Honghua Specialty Gases** will build a new production and purification facility in China as part of a JV agreement aimed at increased production of nitrogen trifluoride (NF3). DuPont will hold a majority position in the JV, which will market NF3 globally under the *Zyron* brand for the semiconductor and flat panel display markets. The new plant will be built in Chengdu where Honghua Specialty Gases is headquartered, and planned operational by the middle of 2005. (September 11, 2002)

ExxonMobil and JV partners **Saudi Aramco** of Saudi Arabia and **Fujian Petrochemical** of China are planning to increase the capacity of their proposed cracker at

Quanzhou, Fujian, China, to 800,000tpa from 600,000tpa, with a target completion date of 2007. Fujian Petrochemical owns a 50% stake in the US$3bn cracker project, while ExxonMobil and Saudi Aramco each own 25%. The State Development Planning Commission has given in-principle approval for the Quanzhou cracker project. (September 15, 2002)

Hitachi Chemical Co., Ltd. will establish an R&D center in collaboration with **Shanghai Jiao Tong University**, **School of Chemistry and Chemical Technology**. The **Hitachi Chemical - Shanghai Jiao Tong University Research and Development Center**, is scheduled to become fully operational by March 2003, and will focus on electronics-related materials and components. Initially, the center will conduct R&D on photosensitive materials and act as a technical service lab. Hitachi Chemical is attempting to strengthen its market position by making the center the company's main electronics-related research foothold in Asia. (September 11, 2002)

Huvis Corp of Korea will complete its proposed polyester staple fiber (PSF) project at Zigong, Sichuan province, West China, in two phases instead of one. The polyester company initially planned to build the 220,000tpa plant by 2004, but it now plans to build a 160,000tpa plant by 2004 and add a 50,000-60,000tpa line in 2005. The original plan was changed because Huvis over-estimated the PSF demand growth in China. (September 22, 2002)

Mitsubishi Rayon has started a joint research project with the Chinese operator of the **Tianjin Economy & Technology Development Zone** and **Nankai University** for the development of a hollow fiber membrane. The results will be applied to water purifiers, specifically suited to the quality of Chinese tap water. (September 17, 2002)

Sasol, the South African fuels and chemicals group, will complete its purchase of China-based **Condea Nanjing Chemical** by the end of the month. Over the summer, Sasol agreed the terms of the deal with Condea's majority owner, German utilities giant **RWE-DA**. Sasol had already acquired the European assets of Condea's chemical's business from RWE in March 2001 for US$1.15bn. It will now acquire the 30% share of Condea Nanjing Chemical currently held by the **Nanjing Surfactants Factory**. (September 12, 2002)

Sumitomo Osaka Cement and **Sumitomo Corporation**, both of Japan, are building a plant in Shenzhen, China, to produce a coating material used for cathode-ray tubes and other display devices. The plant is scheduled to start commercial operation in March 2003. (September 20, 2002)

Tosoh Corp of Japan and **Shanghai Chlor-Alkali Chemical (SCAC)** of China are in disagreement over the estimated cost of their proposed JV PVC project in China. Tososh believes the planned 70,000tpa plant, which would be located at Qingdao, Shandong province, should cost no more to construct than their Philippines JV **Mabuhay Vinyl's** facility, also 70,000tpa. Currently, there is a gap between Tosoh's and SCAC's cost estimates, and although discussions were started in an effort to reach a compromise, they were halted earlier this year because of China's dumping investigation into PVC imports from Japan, South Korea, Taiwan, Russia and the US. One of the petitioners for the antidumping action was SCAC. (August 12, 2002)

INDIA

Asian Paints of India is seeking domestic acquisitions in its bid to gain a larger share of India's industrial paints business. India's biggest paint-maker has the largest share of the nation's home decoration market and plans to boost sales of powder coatings. The coatings segment is growing as much as 14% a year, faster than any other part of the Indian industrial paints business. Asian Paints also plans international expansions with an offer made for Singapore's **Berger International,** as well as pursuing investments in paint makers in Egypt. (September 16, 2002)

DuPont Textiles & Interiors (DTI), a unit of **DuPont**, signed an agreement with the **National Chemical Laboratory (NCL)** of India to extend their research alliance. DuPont and NCL first formed the alliance in 1994 and have renewed and expanded areas of research over the past eight years. Recent results of the alliance include advancements in the purification of terephthalic acid, a key ingredient in polyester. Currently, DTI and NCL are researching reactor systems for processes relevant to DTI, with particular emphasis on catalysis. (September 13, 2002)

The **Indian government** will unveil incentives over the next few months to attract foreign investment into the country's chemicals and hydrocarbons sectors. Foreign investment in chemicals has been low in the past few years, totaling only US$137m for FY03/2002. The new incentives, proposed by a government-appointed steering group, include increasing the ceiling for foreign equity participation in the hydrocarbons exploration sector from 51% to 100%. It also suggests raising the ceiling on foreign participation in state-controlled refining JVs from 26% to 100%, at par with private refineries. (September 29, 2002)

INDONESIA

Chinese National Offshore Oil Company Ltd. (CNOOC) plans to acquire a 12.5% stake in Indonesia's Tangguh Natural gas fields from **BP** for US$275m. It would be the third purchase of overseas reserves that CNOOC, China's biggest offshore oil producer, has made this year. BP, Europe's biggest publicly traded oil company, would retain a 37.5% stake. Tangguh is the supplier for the Fujian Liquefied Natural Gas (LNG) importing project. Prior to the agreement, **China Offshore Oil Corp**, the parent company of CNOOC, had a 25-year purchasing contract with state-owned **Pertamina** of Indonesia to import 2.6m tpa for the LNG project. (September 28, 2002)

JAPAN

Air Liquide of France and **BOC** of the UK announced they would merge their Japanese businesses by early next year to cut costs. The new company, **Japan Air Gases**, will be 45% owned by BOC and 55% by Air Liquide. The merger is a response to restructuring in the Japanese industrial gas industry where domestic customers have been shifting their production offshore. With combined 2001 sales of ¥138bn (US$1.1bn), it will be one of Japan's largest industrial gases companies. (September 3, 2002)

DyStar of Germany will put the marketing division of the JV **Mitsui BASF Dyes (MBD)** under the control of **DyStar Japan** on October 1. DyStar CEO, Alfred X. Rad, said that the move is to strengthen MBD's sales in Japan within the framework of DyStar's global strategies. It will continue to operate MBD's production facility in Omuta, Fukuoka Prefecture, Japan. DyStar is also studying the prospect of doubling its total production capabilities in China. (September 20, 2002)

ExxonMobil's Japanese subsidiary will reorganize its chemical businesses by April 2003. In January, ExxonMobil and **ExxonMobil Chemical** will be merged, followed by the separation of the sales and distribution departments of **Tonen Chemical** and **TONEX**, both of Japan, from January to March. The split will make ExxonMobil their sole sales agency and allow Tonen and TONEX to focus on manufacturing. (September 17, 2002)

Mitsubishi Chemical of Japan has abandoned its earlier plan to either sell its styrene business domestically or form an alliance with a domestic or foreign entity. Instead, the company will try to reduce its operating costs to restore the business' competitiveness and profitability. Options being considered include technology upgrades, plant efficiency improvements, workforce reduction and maintenance shutdowns once every two years instead of every year. Mitsubishi produces 380,000tpa of styrene at Kashima, Japan and feedstock comes from its 370,000tpa and 450,000tpa on-site crackers. Last year, domestic styrene demand was only 1.78m tons while 2.8m tons of styrene were produced. (September 29, 2002)

Mitsubishi Chemical and **Calgon Carbon Corp** of the US announced a carbon JV called **Calgon Mitsubishi Chemical Corp.** The JV will have a capitalization of ¥600m (US$4.9m) and be 51% owned by Mitsubishi and 49% owned by Calgon Carbon. Both companies are seeking economies of scale by having larger operations in an increasingly competitive and congested activated carbons market. Initially, the new company will target the Japanese market, but will

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eventually export to the rest of Asia, and by FY03/2006, the new company hopes to have ¥10bn (US$82m) in annual sales. (September 10, 2002)

Mitsubishi Chemical of Japan is to sell its agrochemical division to **Nihon Nohyaku**, also of Japan, for an undisclosed amount. Mitsubishi's agrochemical business, to be sold officially on October 1, 2002, generates revenues of US$60m through sales of technical grade insecticides and herbicides. Although it had been trying to increase its presence in the agrochemical sector by creating new chemicals, the shrinking Japanese market and fierce competition from multinationals have made it difficult to continue operating the division. (August 20, 2002)

KOREA

Inchon Oil, a Korean mixed xylenes producer and refiner, will appeal to the **Seosan district court** to extend its asset sale deadline until March 2003. This is due to a delay in finding strategic investors after several withdrew. The deadline was originally set for September 25, 2002 after Inchon Oil was placed under court receivership the previous year. Inchon has W2,000bn in total debt, and hopes to sell a 51% stake to raise cash. If Inchon Oil fails to conclude the sale by the deadline, it could face liquidation. (September 22, 2002)

The creditors of Korea's **Saehan Industries** may restart asset sale negotiations with **Toray Industries** of Japan, and two other foreign companies once a new debt-restructuring deal is completed. After the company was placed under a debt-workout plan in September 2000, creditors acquired over 90% of Saehan. Saehan has facilities in Kumi and Kyungsan, Korea that produce 210,000tpa of polyester staple fiber, 90,000tpa of polyester filament yarn, 280,000tpa of PET chips and 71,000,tpa of other polyester products. (September 29, 2002)

MALAYSIA

JOHOR Corp (JCorp) of Malaysia plans to turn Tanjung Langsat Port at Pasir Gudang, Malaysia into a regional center for chemical shipments. Negotiations are currently being held with local and foreign chemical, petrochemical and marine companies to invest in the site. The port will specialize in handling hazardous materials and is expected to be ready for commercial operations by January 2003. So far, the **Titan group**, a US-Malaysian JV, has acquired an 80ha site in the Tanjung Langsat Industrial Estate for its petrochemical facilities. Tanjung Langsat Port will have a 600m length berth and will be capable of accommodating vessels up to 50,000dwt. (September 18, 2002)

PHILIPPINES

Meanwhile the **Philippine government** insisted that prospective investors in the country's first naphtha cracker project must make firm financial commitments before it lowers its petrochemical tariff cuts. The Philippines has, for over a year, considered submitting a proposal to the Asean Fair Trade Area (Afta) to exclude petrochemicals from the scheduled tariff cuts. This is in order to protect its fledgling petrochemicals industry. Tariffs on all products must be reduced to 0-5% by end-2003 as part of a commitment to Afta. Philippine PE and PP tariffs currently stand at 15%. (September 29, 2002)

The construction of Philippine's first cracker, led by the **Philippine National Oil Corp-Philippine Petrochemical Development Corp** will again be delayed, due to shifting priorities of its main investor, the **Brunei National Petroleum Co**. The planned 600,000tpa cracker in Bataan, Philippines, was set for startup in 2005. It was shelved because the Brunei government wants to focus on the development of its own oil, petrochemicals and gas industry before investing in projects abroad. (September 29, 2002)

SINGAPORE

Shell Chemicals plans to construct a monoethylene glycol (MEG) facility downstream of its proposed cracker in Pulau Bukom, Singapore. The cracker project could be a JV with Japanese companies **Sumitomo Chemical** and **Mitsui Chemicals**, which are jointly carrying out a separate feasibility study for a cracker in Singapore. Shell plans to use propylene from the proposed cracker for its styrene monomer-propylene oxide (SM-PO) plant in Ellba Eastern, Singapore, which started up in April. Shell currently uses propylene from US company **ExxonMobil's** cracker at Jurong Island, Singapore, to produce 250,000tpa of PO at Ellba Eastern. The project is set to be on-line in 2008-09. (August 12, 2002)

TAIWAN

BP and **TotalFinaElf** of France expressed interest in investing in Taiwan's state-owned **Chinese Petroleum Corp (CPC)**. CPC is expected to be privatized by the end of next year. BP and TotalFinaElf were among a number of companies to have visited the ministry to find out more about investment in CPC. The company stressed that no commercial decision has yet been made. (August 23, 2002)

Far Eastern Textile (FET) of Taiwan is planning to build a polyester plant in China. It has yet to decide whether it should be a polyester staple fiber (PSF) plant or a polyethylene terephthalate (PET) bottle grade resins plant. If it commits to PSF, the product would be sold to the Chinese domestic market. However, if FET were to pursue PET bottle grade resins project instead, the product would be exported to Asia, Latin America and Europe. The new PSF or PET bottle grade resin unit would be built at the same location as FET's subsidiary, **Far Eastern Industries Shanghai (FEIS)**, or at another site near Shanghai. FET plans to buy feedstock for the project from the same sources as FEIS, which buys monoethylene glycol from **Dow Chemical** and **Sabic** of Saudi Arabia and purified terephthalate acid from **Mitsubishi Chemical** of Japan for its existing plants. (August 28, 2002)

THAILAND

National Petrochemical Co (NPC) of Thailand awarded a plant construction contract to **Samsung Engineering Thailand** in conjunction with its parent, **Samsung Engineering & Construction Co (SE&C)** of Korea. NPS is preparing to expand its operations from the current 437,000tpa of ethylene and 170,000tpa of propylene. Samsung will be responsible for building a polyethylene (PE) complex with an installed production capacity of 250,000tpa. Operational start-up is scheduled for some time during the year 2004. (August 1, 2002)

VIETNAM

Vietnam Chemical Corp (Vinachem) may build a 330,000tpa ammonia facility and a 560,000tpa urea plant in Ha Bac, northern Vietnam, by itself if it is unable to find a foreign partner. Several Chinese and European investors were intersted, but all have since backed out. Vinachem is continuing with a feasibility study on coal-based ammonia-urea, which it hopes to complete by the end of this year. It hopes to start the project three years after securing government approval. (August 26, 2002)

OTHER

Mitsui & Co of Japan said it expects to complete a JV deal for a US$385m methanol project in Al-Jubail, Saudi Arabia within two months. The 957,000tpa project is 65% owned by **Saudi International Petrochemical Co** and 35% by a consortium of Japanese companies led by Mitsui. Mitsui will take a 20% stake in the project and three other Japanese companies—**Mitsubishi Corp**, **Daicel Chemical Industries** and **Iino Kaiun Kaisha**—will take 5% each. The plant is hoped to reach commercial production in early 2005. (September 11, 2002)

Premier Oil, a UK-based oil and gas producer, plans to spend £400m (US$627m) to buy back the stakes of two of its major shareholders, **Petroliam Nasional (Petronas)** of Malaysia and **Amerada Hess** of the US.

The deal would include exchanging £300m in assets for the shareholdings. Petronas would get Premier's stake in a Myanmar gas field and pipeline, while Amerada hess would get part of the UK Company's stake in the West Natuna Field in Indonesia. (September 15, 2002)

Sabic EuroPetrochemicals of Saudi Arabia is considering a second ldPE investment in Iran through forming a JV with **Sasol** of South Africa and **National Petrochemical Co (NPC)** of Iran. The new company would build a 300,000tpa facility. Sabic and Sasol are already partners in **Petlin Malaysia**, which operates a 255,000tpa ldPE plant in Kerteh, Malaysia. (September 22, 2002)

Saudi Arabia canceled natural gas deals with **ExxonMobil** and **Royal Dutch Shell**, scrapping plans for two new Saudi ethylene crackers. The Kingdom notified both companies that they would not open their most promising natural gas fields. With a projected total capacity of 2m tpa, the facilities would have significantly increased supply in the world market. The cancellations brightens the outlook for US chemical companies **Dow Chemical**, **Lyondell** and **Millennium** as well as Canada's **Nova** as prospects for overcapacity diminish (September 9, 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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