

# ASIAN SPECIALTY CHEMICALS NEWSLETTER

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A quarterly newsletter of developments in the chemicals sector

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## CHINA/HK

**BASF AG** is investing US\$2.9bn through its Chinese JV to build a petrochemical complex in Nanjing. The 600,000 tpa naphtha cracker will be ready in mid-2005, and other plants including one for the polyurethane precursor toluene diisocyanate (TDI) are also planned. BASF is also planning to build a facility for polyurethane specialty chemicals in the Pudong district of Shanghai. Construction will begin in 2005 and operations will start in 2007. (December 13, 2004)

**Bayer MaterialScience** began work on the first phase of its isocyanates project in Caojing, Shanghai, in October 2004. The first phase will include a hexamethylene diisocyanate (HDI) unit and a polymeric and monomeric methyl di-phenylene isocyanate (MDI) facility. Bayer plans to bring onstream 30,000 tpa of HDI by 2006 and another 20,000 tpa thereafter. The MDI unit, slated for start-up by mid-2006, will source crude MDI from **BASF** and its partners until Bayer's own 230,000 tpa crude MDI unit is ready in 2008. The BASF JV is to start up a 240,000 tpa MDI unit, also in Caojing, by end-2006. Bayer will also build a 160,000 tpa toluene diisocyanate (TDI) unit and a 200,000 tpa polycarbonate (PC) plant. The planned TDI unit is due onstream in 2009; construction has already begun on the PC project. Bayer will bring onstream the first 100,000 tpa of PC in Q2 2006. The plant's capacity will be doubled, possibly by 2010. A 40,000 tpa compounding facility is also scheduled to start up at end-2005. (September 20, 2004)

## INTRODUCTION

We hope 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 advise our clients.

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

Euan Rellie  
Managing Director

**Ciba Specialty Chemicals** aims to more than double its sales in China to US\$1bn by 2009. The Company said the Chinese market is of the utmost strategic importance. Sales of Ciba products in China totaled US\$40m in 2003, which accounted for 7% of Ciba's total sales worldwide, making China the third-largest market for Ciba behind the US and Germany. Half of its production in China is now exported to other Asian countries. Ciba said it will expand its sales network, build up local production facilities and increase R&D spend in China. It is doubling capacity at its Shanghai antioxidant JV, while setting up a new research center there. (December 2, 2004)

**Cognis and Eternal Chemical Co** have formed a JV in China. Eternal Specialty Chemical will be located in Zhuhai, where a plant already built by Eternal opened in November. The plant will produce acrylate monomers and oligomers as well as blends for use in ultra violet/electron beam cured coatings, graphic arts, adhesives and other applications. (November 22, 2004)

**D.A. Stuart Company** expanded into the Chinese market through the launch of a JV in Shanghai. D.A. Stuart Company (Shanghai) is the result of a US\$5.4m investment from the D.A. Stuart Company Group (UK), and its partner **Shanghai Razor Blade**. The Shanghai-based manufacturing plant will expand the coverage of the Stuart brand of rolling oils and metalworking fluids in China and will comprise on-site product development facilities and technical support laboratories. Construction of the facility will commence in early 2005. D.A. Stuart produces lubricants, metalworking fluids, friction modifiers and inprocess and production cleaners. (December 13, 2004)

**Degussa** has started work on a polyester coatings project in Caojing, Shanghai. The US\$12m project is scheduled for completion in October 2005 and production at the beginning of 2006. It is the first facility to be built at Degussa's new multi-user site in Caojing. An agreement on the site was signed in October between Degussa and the Shanghai Chemical Industry Park (SCIP) authorities.

Degussa will occupy 600,000m<sup>2</sup> of space in the SCIP. The company also launched an R&D centre in Xinzhuang, Shanghai, earlier this year. Degussa is committed to spending a minimum of US\$134m a year in China. (November 22, 2004)

**Degussa** is considering producing polyamide 12 or polyamide 12-12 in China. The German player had earlier expressed interest in producing polyamide 12 in China, but is now also looking at polyamide 12-12, a high-value polymer. It will possibly work with a partner but has not decided where the project will be located. The proposed unit is one of 22 projects in China on which Degussa is holding active talks. (November 29, 2004)

**Degussa** is continuing talks with **Sinopec** on a carbon black project, although it had decided to go ahead with an separate expansion of its JV carbon black facility in Qingdao, with a capacity of 50,000 tpa. An expansion of 20,000 tpa will be completed on schedule at the end of 2004. The plant is owned by **Qingdao Degussa Chemical Co**, which is owned by Degussa, **Zhenya Carbon Black Co** and **DEG**. (November 29, 2004)

**Degussa** signed a preliminary agreement to buy an 80% stake in Chinese high-performance polymer producer **Changchun Jida High Performance Materials** (Jida New Materials). The company said the pre-contract with Jida New Materials, a subsidiary of Jilin University in Changchun governs cooperation on high-performance polymers polyetherether ketone and polyether sulfone resin. Earlier this year, it signed a LOI with Jida New Materials for the joint development, production and marketing of the products. In 2003, Degussa increased its sales in China by 17% to EUR 280m. The Group operates 17 companies in the country. (December 13, 2004)

**Eastman Chemical's** plant in China's Shandong Province started production of Texanol ester alcohol and TXIB plasticizer for Eastman's customers in China and Asia region. Texanol ester is a coalescing aid used in paints around the world, while

TXIB plasticiser is a primary plasticiser for vinyl, urethanes and other polymers for the production of consumer goods such as flooring, wallpaper and artificial leather. Eastman said that the plant will meet the demand for these products from its customers in China. This is the company's second major project in China in the chemicals market, after **Nanjing Yangtzi Eastman Chemical**, a JV that manufactures Eastotac hydrocarbon tackifying resin for adhesives. The company has 12,000 employees and had 2003 sales of US\$5.8bn. (December 10, 2004)

**Kao** will establish a production facility for polyolester used as refrigeration oils for compressors in Shanghai. The investment amounts to US\$5.9m and the facility will be completed in March 2006. (December 15, 2004)

**Mitsui Chemicals** is building a 15,000 tpa polypropylene (PP) compounding plant in Zhongshan, Guangdong. Its subsidiary, **Mitsui Advanced Composites**, will operate the project. Commercial production will start in April 2005. (November 22, 2004)

**Nan Ya Plastics** aims to increase its 10% share of the Chinese epoxy-resin market. The company has already invested about US\$60m in a new plant in Kunshan, China in June 2004. The 100,000 tpa plant is slated to start up in October 2005, and would bring Nan Ya's total capacity to 300,000 tpa. Nan Ya has approximately 70% share of the Taiwan market. Nan Ya Plastics' customers include **ICI**, **Topway Electrical Appliance**, **Pittsburg Plate Glass**, and **Kansai Paint**. (September 20, 2004)

**Rhodia** bought full control of its Chinese subsidiary **Rhodia Wuxi Specialty Chemicals (RWSC)**. Rhodia has bought the 30% owned by partner **Wuxi Chemical Industry Group** as part of its strategy of expanding in China. Financial details were not disclosed. RWSC, established in 1994 near Shanghai, is a leading producer of surfactants and specialty chemicals, with products aimed at the personal and home care markets as well as industrial applications. Additional investment would

be made to meet demand for products tailored to local needs, particularly for the personal and home care market. (November 25, 2004)

**Sanming Chemical Industry Co** plans to build a 30,000 tpa melamine plant in Sanming, Fujian. The provincial government has approved the project, which would be based on **Eurotechnica's** technology. Urea feedstock will be sourced from Sanming Chemical's plants. The project will take two years to build, but its start-up date has not been decided as the company is still in talks with banks to secure financing. The project will be a JV with **Huawei Co**, a subsidiary of **Huamin Group** in Fujian and is open to other investors. The company also plans to build a 25,000 tpa 1,4 butanediol plant in Sanming, Fujian. The company had sought approval for the project from the Chinese government. Its start-up date depends on approval. Sanming Chemical is seeking investors for the project. (November 1, 2004)

**Sinopec's** subsidiary, **Shijiazhuang Refining-Chemical**, plans to debottleneck its 100,000 tpa aromatics facility to 300,000 tpa in Shijiazhuang, Hebei. The project will be linked to an expansion of the company's refinery from 3.5m tpa to 5m tpa. The company has submitted a feasibility study for these projects to the Chinese government. The projects are scheduled to start up in 2006. The company produces benzene and toluene that are used captively. It also produces mixed xylenes, which are sold domestically. (November 22, 2004)

**Sinopec Qilu Petrochemical** has brought onstream the world's largest single oxo alcohol train plant, which uses LP Oxo low pressure process technology. The plant in Zibo, Shandong, China, produces 171,200 tpa of 2-ethylhexanol and 19,600 tpa of iso-butyraldehyde. This is the second Sinopec plant to employ the LP Oxo process technology, which was developed by **Davy Process Technology** in cooperation with **Union Carbide**. (December 6, 2004)

**Tianbao Chemical Products Co** is working with BDA to expand its production of Tertiary Dodecyl

Mercaptan (TDM), which is used in ABS, SBR, NBR, M-HIPS manufacturing processes. It is also used in pharmaceutical, biocide, and spices. Almost 100% of TDM used in China is imported. Tianbao is seeking a JV partner for this project, and is aiming for capacity to double to 6,000 tpa by 2007; the product should be comparable in quality and 30% to 40% cheaper than imports. The TDM product is based on **Jilin Chemical's** technology. China's TDM market is expanding rapidly, estimated at over 5,000 tpa in 2005, from 3,400 tpa in 2000. TDM sales are expected to reach US\$15m in 2005, and US\$25m in 2007. (September 1, 2004)

**Toray Industries** is carrying out a feasibility study on a nylon-6 project in Nantong, Jiangsu. The proposed plant's capacity and start-up date have not been confirmed. Toray is also considering setting up five to six resin-compounding plants in China. It is carrying out feasibility studies on these at sites in N, E, and SW China. (December 6, 2004)

**Toyobo Co Ltd** will build a nylon film plant in Shanghai to come onstream by the end of 2005 with an initial capacity to produce 6,000 tpa. The plant has the potential to be expanded to 24,000 tpa in the future. China's nylon film market is expanding at 20% CAGR. Resin Feedstock for the plant will initially be imported, but Toyobo hopes to eventually find Chinese suppliers. The nylon film company, called **Shanghai Zidong Chemical Materials Co Ltd**, would be a JV between Toyobo (51%) and **Shanghai Zijiang Enterprise Group Co Ltd** (49%). Shanghai Zidong has projected annual sales of US\$27m in 2006. (August 13, 2004)

**Urumqi Petrochemical Factory** will build a 30,000 tpa melamine plant in Urumqi, Xinjiang. The Chinese government has approved the project, which will be based on **Eurotechnica's** technology. Construction will start in Q2 2005. Production is expected in mid-2006. Urea feedstock will be sourced from Urumqi Petrochemical's ammonia-urea plants. The company also produces 12,000 tpa of melamine and 30,000 tpa of formaldehyde. (November 15, 2004)

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## INDIA

**Asian Paints** will set up an industrial liquid-paints plant in Taloja, Maharashtra, following the boom in the industrial-coatings business. The plant, which will cost Rs149m (US\$3.4m), will have a capacity of 800,000 litres/year and will produce industrial coatings. The industrial liquid-paints business in India has grown by 30% over the past three years on the back of the automobile boom and higher demand for road markings, floor coatings and industrial protective coatings. (December 13, 2004)

**Camphor & Allied Products** is to sell one of its two fragrance plants to an unnamed buyer, subject to due diligence and statutory approvals. It is seeking shareholders' approval for disposal of the plant at Clutterbuckganj in Bareilly district, Uttar Pradesh. A company official said the plant only breaks even, even though it had sales of Rs550m (US\$12.2m); hence the decision to sell it and concentrate on operations at a second plant at Nandesari in Vadodara district, Gujarat. (December 6, 2004)

**Jubilant Organosys Limited (JOL)** will enlarge and diversify its pharma portfolio. The company is investing Rs2.5bn (US\$57m) to strengthening its pharma business across the entire value chain from drug discovery to production and marketing of formulations and custom research and manufacturing services (CRAMS). The investment is being made during 2005-2006. The company will start operating an active pharmaceutical ingredients (APIs) plant in December 2004. The new plant will be the company's third API facility. The company is expanding the capacity of anti-epileptic drug oxcarbazepine to 75 tpa from the present 20 tpa. The enhanced capacity is slated for commissioning by end-March 2005. The APIs in the pipeline include bone reception inhibitor zolendronic acid and risedronate and anti-diabetics pioglitazone and rosiglitazone. It also intends to file 17 drug master files with regulatory authorities in the US and Europe by 2008. (November 29, 2004)

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## JAPAN

**Dow Corning** has acquired the silicon division of **Nippon Unicar** for an undisclosed amount to meet the growing market demand for silicon-based products. The acquisition was made by a Dow Corning JV in Japan, Dow Corning Toray Silicone, to strengthen its organo-silane business. The sale will enable Nippon Unicar to focus on the production of polyethylene. Dow Corning has undertaken several projects around the world to stretch its silicon-related production capacity. The company's total capacity has risen by more than 15% by H1 2004, compared with the same period in 2003. (November 1, 2004)

**Tokyo Ohka Kogyo** plans to build a new R&D facility at its Sagami Operation Center to develop new semiconductor materials. The company will invest US\$62m to build a facility with 5,900m<sup>2</sup> of floor space. It is planning a super cleanroom and the installation of equipment to conduct R&D on 45 nanometre-node-capable photolithography technology. The facility is scheduled for completion in December 2005. (November 29, 2004)

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## KOREA

**Ciba** has agreed to buy the remaining 50% stake in South Korea's **Daihan Swiss Chemical Corporation** for US\$26.7m. The transaction gives Ciba 100% of Daihan Swiss, which makes and markets pigments and preparations for the Korean coatings, plastics and inks markets, and exports products globally through Ciba Specialty Chemicals. Seoul-based Daihan Swiss employs 225 people and also operates a modern research and development (R&D) facility. Ciba said the acquisition, from **Daihan Color**, will close before year end, subject to the usual regulatory approvals. Increasing its

stake to 100% will allow Ciba to bring new patented technology into the business and open up access to one of the largest markets in Asia outside of Japan. (November 23, 2004)

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## PHILIPPINES

**Kao** will invest approximately US\$67.6m into Pilipinas Kao, Inc. to increase its fatty alcohol production capacity. The new facilities will have an annual production capacity of 100,000 tpa, and the project will be completed in summer 2006. The existing facilities will be scrapped at that time. (December 15, 2004)

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## SINGAPORE

**Royal Dutch/Shell Group** is building a US\$1bn, 1,000,000 tpa naphtha cracker in Singapore with a targeted start-up date in 2009. Shell's cracker would be one of the largest in Asia, alongside planned facilities in Taiwan and China, which will each have at least 1,000,000 tpa in capacity. Once fully approved, construction on the cracker should start in 2006 next to Shell's 500,000 barrel-per-day refinery. Shell will also build a 400,000 to 700,000 tpa mono ethylene glycol (MEG) plant. (December 19, 2004)

**Tate & Lyle** plans to build a new US\$175m sucralose plant on Singapore's Jurong Island in order to satisfy demand for the artificial sweetener and bolster the company's planned expansion into

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Asia. This will be Tate & Lyle's second sucralose facility, in response to strong and sustained international customer demand for its SPLENDASUCRALOSE sucralose brand. Sucralose is a no-calorie sweetener made from sugar. The new plant will use a patented manufacturing process and should be completed by 2007. The plant will be funded from existing resources and is expected to cover the cost of capital during the financial year ending March 2009. (November 12, 2004)

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Euan Rellie, Managing Director

Meng Jiang, Analyst

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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, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact our offices below.

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