

Eyes Improved Environmental Technology, Stronger International Competitiveness

– Energy-Guzzling Businesses Cannot Survive –

Interviewer: Okabe Hiroshi

Japanese chemical giant Mitsui Chemicals, Inc. has drawn up what it calls a “grand design” for the target years 2010-2015 aiming to grow into a well-balanced corporation with strong earnings capability and environmental technology. No business corporation can survive if it pursues profits alone amid mounting pressures for businesses worldwide to tackle global environmental problems. Mitsui Chemicals’ “grand design” incorporates such a philosophy. The company’s president, Fujiyoshi Kenji, speaks of his business strategy and issues facing his company in an interview with *Japan SPOTLIGHT*.



Increasingly Severe Business Climate

Mitsui Chemicals posted brisk earnings in the 2006 business year, rewriting records in group sales and operating/pretax profits, partly thanks to declines in naphtha prices in and after the summer of 2006. How do you see this year’s business environment?

Fujiyoshi: There were many factors behind the brisk earnings. Among them was a special one – favorable market prices of TDI (toluene diisocyanate), a polyurethane raw material. We will temporarily shut down two ethylene-producing complexes in 2007 for regular checks, while interest rates are expected to be higher than in 2006. Crude oil prices are again on the rise after a temporary slowdown. These are cost-increasing factors. If the Japanese economy continues to grow by 2% a year, there will be no major change in demand for chemical products. In other words, this year’s business environment will become severe because of the absence of special favorable factors seen in 2006. Under such a situation, we



Photo: Okabe Hiroshi
Fujiyoshi Kenji, President of Mitsui Chemicals, Inc.

need to raise the share of performance materials and products resistant to market trends in the line of products.

The 2007 business year is the final year of your four-year mid-term business plan that calls for posting ¥100 billion in operating profit and raising the share of performance materials to 50%. How do you see the levels of achievement of these commitments? Where do you expect to place priority toward achieving the goals?

Fujiyoshi: Frankly speaking, it may be difficult to attain the target of posting ¥100 billion in operating profit. The share of performance materials increased sharply to 40% in 2006. But it is not easy to clear the remaining 10%. It may be difficult to meet the commitments in numerical terms. But I can say the achievement of the goals is looming in terms of the trend that we have continued efforts to clear the targets under the mid-term business plan.

Playing Catch with Customers

Where are you going to put emphasis in the next mid-term business plan?

Fujiyoshi: We have invested intensively in several lines of business in the past few years, and they are expected to come on stream around 2008. These include a state-of-the-art elastomer plant built domestically, a production base in China and development of new plastic film. Toward the future, we have high expectations for a newly built facility that produces a large amount of sample products at a semi-commercial plant with a daily output capacity of around 1 ton. We plan to bring the samples to our customers, get input from them,

Photo: Mitsui Chemicals, Inc



Mitsui Chemicals' versatile semi-commercial plant at its Iwakuni-Ohtake Works in Yamaguchi Pref., western Japan

and make improvements in the samples to produce new polymers. It is a kind of playing catch in baseball. We are sure that speeding up this process of playing catch will lead to actual demand and to new business deals in 2008 and 2009. We have steadily laid the groundwork to achieve that goal.

Seeking an Oil-Free Business Structure

What were the basic principles and points of view in drawing up the "grand design?"

Fujiyoshi: Mitsui Chemicals was established in 1997 through the merger of Mitsui Petrochemical Industries, Ltd. and Mitsui Toatsu Chemicals, Inc. At that time, we drew up a picture of what the new company should look like and decided to review it 10 years later. So we launched discussions and drew up the "grand design." Mitsui Chemicals is aiming to become a business group to "constantly pursue innovation and materialize dreams with the wonder of chemistry" under the catch-phrase "chemistry, innovation & dreams." The "grand design" sets the company's long-

term management targets of achieving ¥150 billion in operating profit and raising its return on asset (ROA) to 10% or more. Earnings are not the only corporate target. At the same time, we have set clear goals to cope with environmental problems. These include curbing the group's greenhouse-gas basic unit index to less than 90 against 100 for the 1990 business year, minimizing the group's industrial wastes and expanding business fields independent from oil through the development of technology to utilize non-fossil raw materials and fuel.

Mitsui Chemicals plans to put emphasis especially on the environment. What is the idea behind the plan?

Fujiyoshi: Balancing growth and the environment is extremely important. I think it will be more and more difficult for energy-guzzling industries to survive in Japan from now. I think we must reduce greenhouse-gas emissions and phase out energy-guzzling businesses. We need to overcome a variety of technological issues and bear costs to achieve the environmental goals. We want to respond to these challenges in a positive manner, without seeing them as restraining factors. If our catalyst

technology and other expertise can help overcome such issues as global warming, they would be enormously competitive in the world. I think Japan's oil industry probably ranks at the top in the world even now in terms of the efficient use of energy. Japan is more efficient than the United States, Europe and China in the amount of energy needed in the production of any particular product. In other words, Japan is internationally competitive. Environmental issues are restricting factors and at the same time offer a major business chance for us.

Some say your targeted ¥150 billion in operating profit in 2015 is a somewhat modest figure, judging from the current earnings condition.

Fujiyoshi: I think the figure is a rather challenging one. Currently, Mitsui Chemicals is inferior to other Japanese chemical makers in terms of profitability. The "grand design" has consolidated the company's present business fields into the three pillars of performance materials, advanced chemicals and basic chemicals. The ¥150 billion figure is fairly challenging because the company, on the other hand, needs to invest in each core sector to build up profitable business foundations.

Principles for Investing in China

China continues high-level economic growth and is emerging as a giant consumer market. Once called the "factory of the world," China is now attracting attention as a market. How is Mitsui Chemicals planning to work out its business strategy toward China? Demand, notably for automobiles and home electric appliances, continues to soar in China. What is Mitsui Chemicals' supply strategy in the Chinese market?

Fujiyoshi: China is a giant market and cannot be neglected. Frankly speaking, however, we are conservative toward our business in China. There still remain big risks. China is a difficult place for

Japanese firms. There are problems involving history and also intellectual property. A number of other questions remain, including whether China applies fair rules for investment from overseas. Mitsui Chemicals has set three principles for its business in China. One is the business field of our investment in China must be a core one for Mitsui Chemicals. Secondly, the business in China must be in an area to be manageable by Mitsui Chemicals. And the third and last one is that we have already acquired definite customers. In China, it is difficult to recover funds in transactions with customers among the general public. Mitsui Chemicals has established in Guangdong Province a base for the production of polypropylene compounds to be used for auto parts. This is exactly a business field under Mitsui Chemicals' core technology, and the amount of funds to be invested is only several billion yen. And, there are established customers – Japanese automakers such as Honda Motor Co. and Toyota Motor Corp. This satisfies the requirements under the three principles. Our basic position in investing in China is to advance step by step while confirming such principles.

China is strengthening its output capacity at a high speed, greatly affecting market prices of petrochemical products. How do you see the situation?

Fujiyoshi: Most affected currently is terephthalic acid, a polyester material. China has launched plants one after another, building up its output capacity at a furious pace, by several hundred tons every year. As a result, the margin of profit from the terephthalic acid business is approaching almost zero. This poses a major threat to us. Against such a problem, our basic strategy is to raise the proportion of performance materials. But there still remains a problem – how to maintain our competitiveness – since Mitsui Chemicals has already expanded production of terephthalic acid in Asia. We must make a judgment on our future China business after fully looking into various issues, including those just mentioned.

Stakeholders' Profit Comes First

A wave of global reorganization is hitting some industries, including steel and pharmaceuticals. In Japan, some say large foreign firms in terms of market value will become aggressive in taking over Japanese companies following the lifting of a ban in May on the so-called triangular merger. What kind of moves do you expect in the chemical industry?

Fujiyoshi: I think anything can happen in the chemical industry as well, which has already been swamped with rumors about merger and acquisition (M&A) deals by major European and US chemical companies. M&A is one means of achieving a goal. But it is a really thorny matter how to cope if a foreign company has actually launched a takeover bid. We must take proper defensive measures against bids by so-called greenmailers. If a takeover bid is launched by foreign businesses other than greenmailers, it will depend in principle on how shareholders judge.

How will you respond if a takeover bid is launched against Mitsui Chemicals?

Fujiyoshi: We would like to defend our stakeholders' interests securely against those who are pursuing shareholders' profits alone. Johnson & Johnson of the United States has made clear its credo that what is to be defended first is customers, followed by employees, the community and stockholders. Coming last are stockholders. We agree with such a principle. Mitsui Chemicals will act from the position of defending our stakeholders' interests.

Mitsui Chemicals drew attention for acquiring shares in Sankyo Agro Co. to rank second in the field of agricultural chemicals. What is your basic position about M&A?

Fujiyoshi: We will consider offensively if there is a proper target suitable to our business strategy, although we have

financial constraints. But we have no intention of launching a hostile takeover bid. Hostile takeovers are of no use in the chemical industry. A chemical maker takes its roots in developing and producing materials such as resins and films. And, it uses those materials in various applications just as branches and leaves spread from the roots. So, a chemical company's business structure is something like a reverse pyramid. It differs from the pyramid-type business structure seen in the automobile industry where various parts are assembled into a car. Therefore, an acquisition of the leaves and branches of a "chemical company" tree through a hostile takeover would result in the tree standing dead sooner or later without technology that forms its roots. No new buds could emerge. Front-line engineers who support a company's technological capabilities will oppose a hostile takeover and quit the company. A chemical company depends much on human factors, and it cannot survive in the absence of such human resources.

Management Course Made Clear after Merger Plan Scrapped

Mitsui Chemicals once reached an agreement with Sumitomo Chemical Co. to integrate their operations, but the accord was scrapped later. What impact has the failure left in Mitsui Chemicals' management?

Fujiyoshi: We tried to expand the scale of business through the integration with Sumitomo Chemical. Now, we are pursuing products of higher performance. After the merger plan was scrapped, I can say Mitsui Chemicals made its course of business clear – pursuing quality rather than quantity. The incident has provided us with a chance to make clear Mitsui Chemicals' corporate course of business.

A massive number of workers of the baby-boomer generation are retiring. There are worries that their

techniques may not be smoothly handed down to younger generations in the manufacturing sector. How is Mitsui Chemicals coping with this problem?

Fujiyoshi: We are encouraging younger workers through training sessions to inherit techniques. We are also extending the age limit for workers of merit to avoid a quick decline in the workforce. Currently, Mitsui Chemicals' workforce stands at 12,400. Projections based on per-employee operating profit show that a workforce of about 19,000 will be required if we are to expand our business scale and achieve goals under the "grand design." The shortfall in the workforce needed will be filled mainly in Asia.

Japanese corporations increasingly feel labor is in short supply amid the longest-ever economic boom in the postwar era. I hear many firms face difficulties in recruiting new graduates. What is the current situation for Mitsui Chemicals?

Fujiyoshi: It is not so serious. Many new recruits are quitting in a year or two to switch jobs recently. So, in addition to new graduates, we should increasingly employ mid-career workers. Even university graduates wish to become front-line factory operators. There are a variety of employment styles.

Support for Technological Development Needed

The government of Prime Minister Abe Shinzo is trying to take policies aimed at strengthening corporate growth under what it calls the "rising-tide strategy" – a theory that sharp tax cuts will encourage economic growth and eventually increase tax revenues. What do you think is necessary to reinvigorate Japan's industrial capabilities, particularly for manufacturers?

Fujiyoshi: First of all, we would like to see unfavorable factors in terms of international comparison removed. Japan's corporate taxes are too high compared with those of Singapore and other Asian countries. Japanese companies are placed under many strict regulations, finding themselves at a disadvantage in competing internationally. Policies to back up technological development are necessary. Japanese corporations excel in energy-saving technology. If this advantage is further encouraged, Japanese companies will be able to acquire stronger international competitiveness as seen in emission controls. The government has

urged Japanese firms to back up China's energy-saving efforts but, before doing so, it should properly appreciate technological know-how accumulated by Japanese companies. Energy-saving technology is a matter of know-how but not of patents. But Japanese businesses could lose their international competitiveness in the future if they provided their energy-saving expertise for free. It is important to have the viewpoint of defending intellectual property as a national strategy.

What impact do you expect on Mitsui Chemicals and the chemical industry as a whole from a change in Japan's social structure – the dwindling birthrate coupled with the aging population?

Fujiyoshi: Japan really faces the issue of the aging population combined with the diminishing number of children. But our market is the whole world. We don't simply look at the domestic market alone. And, the aging population doesn't necessarily pose only unfavorable factors for business. It will entail a change in lifestyles, and help create new markets and technologies. The chemical industry is characterized by a flexible response to changes in user industries and society. **JS**

Okabe Hiroshi is a business news editor at Kyodo News.

Column

Nurturing youth who like chemistry

Mitsui Chemicals sponsored an international symposium on catalysis science in March with experts from both at home and abroad attending. The symposium is aimed at improving the levels of cutting-edge chemical technologies. It was the third of its kind. Three Nobel Prize laureates, including Jean-Marie Lehn, professor at Louis Pasteur University in France, gave speeches and lectures. The venue was swarmed with an audience of about 900 people, including those forced to listen outside.

Mitsui Chemicals President Fujiyoshi Kenji invited high school students with excellent achievements in science. He wanted the younger generation to understand how interesting chemistry is. The Nobel laureates gave lectures

introducing cutting-edge research in high-polymer chemistry that went far beyond the levels of high school education. But the students are said to have been excited with their exposure to genuine chemistry.

China and India are known for their enthusiasm in promoting science and mathematics education. In contrast, an increasing number of young Japanese people dislike science and mathematics. But Japan, which is poor in natural resources, is essentially required to nurture personnel who will lead the development of high-level technology to maintain its international competitiveness. Mitsui Chemicals aims at contributing to Japan's growth strategy through the symposium.

Photo: Mitsui Chemicals, Inc



The third International Symposium on Catalysis Science, sponsored by Mitsui Chemicals, was held in March 2007. Among speakers were three Nobel laureates, including Jean-Marie Lehn, professor at Louis Pasteur University in France.