

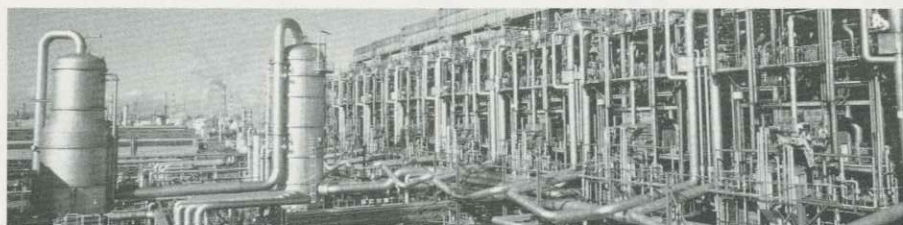
Producers' Market

The overall recovery of the domestic economy during 1987 resulted in generally firm demand for chemicals. Petrochemical producers in particular reaped the benefits of a favorable supply-demand equilibrium in both domestic and international markets that enabled them to raise prices, thus helping to boost corporate performance.

Petrochemicals, the most important branch of chemicals, suffered from declining "indirect exports" (exports of end-products containing polymers and other petrochemicals) due to the strong yen. But domestic demand for petrochemicals grew substantially thanks to surging personal consumption and increases in housing investment and public works spending. The international situation also worked in producers' favor. Imports, especially from Saudi Arabia, were sluggish in 1987 after steady increases up through 1986 as foreign producers found other markets for their petrochemical products. Given firm domestic demand, makers had no choice but to reduce exports. On balance, imports are believed to have slightly exceeded exports in 1987. The elimination of excess capacity under the industrial restructuring law allowed producers to operate at full capacity throughout 1987, mainly making ethylene derivatives.

The international supply-demand situation of petrochemical products has been improving due to the steady recovery in the global economy since 1983.

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wide ethylene capacity. Producers in Japan, the United States and Europe shut down outdated and inefficient ethylene plants with a combined annual capacity of 5 million tons. Though Saudi Arabia, Canada and some other producers raised their aggregate olefin capacity by an identical 5 million tons, this was not enough to offset the capacity cutbacks.

Against such a background, lower prices for crude oil prompted petrochemical users, especially those in newly industrialized countries, to increase consumption. That in turn raised demand for general-purpose plastics in the U.S. and Western Europe. Resins and other petrochemicals were in short supply, sending international spot prices skyrocketing. This international situation helped enable Japanese producers to raise their prices.

The year 1987 thus witnessed a major change in industry fortunes. In 1986, Japanese chemical producers were forced to cut product prices even faster than the decline in naphtha feedstock prices. In 1987, however, users were well aware of the tight international markets, and accepted product price hikes outpacing increases in naphtha prices.

Elsewhere, both chemical fertilizers and agrochemicals had a hard time as the government policy to cut farm land acre-

age reduced demand even as the strong yen prompted increased imports and subsequent price reductions. The appreciation of the yen also encouraged imports and eroded export earnings for some fine chemicals, although the markets for both fine ceramics and semiconductor materials continued to grow.

Japanese chemical companies have adopted strategies similar to those of leading U.S. and European producers calling for expanding their output of fine and specialty chemicals, which promise higher value-added. Japanese companies continued to strengthen their research and development capabilities while working to commercialize and market new products. They face strong competition from foreign producers who are increasing their commitment to what they consider the last major market for various chemicals.

In 1988, the petrochemical sector will enjoy smooth operations benefiting from solid domestic demand supported by firm personal spending, housing investment and consumption of petrochemical-based industrial parts. There is little chance of reactivating suspended plants until at least June, when the industrial restructuring law expires. Besides, foreign ethylene producers are also unlikely to expand capacity during 1988. Such moves are not expected until 1989 or after.

While reaping profits from petrochemicals, chemical producers will bolster their ability to develop and market fine chemicals as well as other specialties. In the specialties, competition is likely to heighten because of the entry not only of foreign companies but of nonchemical producers as well.

Fine chemical development often requires cooperation with users as well as fellow producers in Japan and abroad. Cases of joint developments are expected to increase further as Japan's chemical industry heads into a new era of competition and cooperation.

(Masao Mori, economist)

Chemicals Supply and Demand

	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987 (estimate)	FY 1988 (forecast)
Domestic demand (1,000 t)	3,882 (7.6)	4,292 (10.6)	4,337 (1.0)	4,417 (1.8)	4,616 (4.5)	4,650 (0.7)
Exports (1,000 t)	434 (1.4)	446 (2.8)	445 (-0.2)	653 (46.7)	615 (-5.8)	590 (-4.1)
Imports (1,000 t)	401 (-1.5)	448 (11.7)	551 (23.0)	674 (22.3)	634 (-5.9)	670 (5.7)
Production (1,000 t)	3,965 (11.2)	4,341 (9.5)	4,219 (-2.8)	4,376 (3.7)	4,515 (3.2)	4,590 (1.7)
Sales (¥ billion)	3,245.2	3,432.9	3,391.3	2,692.7	2,750	2,750
Current profits (¥ billion)	34.8	136.8	97.6	80.7	130	110

Notes: 1. Sales and current profits are based on figures of five major general chemical companies and two petrochemical companies.

2. Figures in parentheses represent percentage growth over the previous year.

Photo: Mitsubishi Chemical Industries Ltd.