

# Aggressive Overseas Expansion Goes On

Domestic demand for nonferrous metals in Japan is said to be maturing along with other materials industries.

Domestic demand for ingot copper in fiscal 1996 was expected to have surpassed fiscal 1995 figures for copper electrical wire. In the copper electrical wire field, growth in demand linked to the increase in housing construction and high demand for automobiles precipitated by the upcoming hike in the consumption tax made up for a concurrent decline in demand caused by electrical appliance makers moving production overseas and lackluster plant and equipment investments. In the rolled copper products field, however, there was a large drop in demand despite healthy growth in air conditioner production sparked by the hot summer. The drop was caused by curtailment of Japanese semiconductor production and the replacement of copper car radiators with aluminum and so on. Demand for rolled copper products was expected to have been under the fiscal 1995 mark. Consequently, the growth in total ingot copper demand was expected to have only reached around 0.5%.

As for ground zinc, the market for zinc-coated steel plate has shifted to a bullish tone thanks to healthy housing and automobile demand, but the recession

in the electrical appliance industry caused great reductions in zinc destined for rolled copper products and die casts. Overall, a drop in zinc demand over the previous fiscal year was expected to have been unavoidable for the second year in a row.

Based on these trends in matured nonferrous metal demand, nonferrous metal smelting works were expected to have seen an increase in revenues and profits for the third year running. The weakening of the yen and the growth of refining margins has greatly bolstered the expenditure/revenue balance in the area of smelting despite negatives such as the weakening of the international market. The non-smelting area was also strong, based mainly on the electronic parts materials market. Combined total running profits for the six largest listed companies (Mitsubishi Materials, Sumitomo Metal Mining, Mitsui Mining and Smelting, Dowa Mining, Furukawa Co. Ltd. and Toho Zinc) were expected to have increased by some 40% over fiscal 1995.

Beginning in fiscal 1997, no striking increase in domestic demand for nonferrous metals can be expected. On top of the absence of hope for strong economic growth in the future, the shift to overseas production by client industries and the move toward use of optic fibers and aluminum radiators

all cause anxiety in the nonferrous metals arena. Furthermore, the jump in demand in the construction and automobile markets during the latter half of fiscal 1996 caused by the scheduled hike in the consumption tax is expected to dry up. Domestic demand for nonferrous metals in fiscal 1997 is expected to drop

below fiscal 1996 levels. Despite this difficult environment, nonferrous metal smelting works anticipate further increases in refining margins in fiscal 1997 and they can expect the recent weakening of the yen to benefit company profits. On the other hand, a gentle rise in interest rates could put pressure on profits. Furthermore, one must not forget that a reversal of the exchange rate bringing the yen-dollar rate back over the 110-yen mark would threaten to cut profits for all companies.

Nonferrous metal companies have been expanding overseas aggressively in recent years and that trend continued in fiscal 1996. Nonferrous metal companies are racing to participate in the development of overseas mines. Smelting works operations, too, are moving overseas one after another. Of course, Japanese nonferrous metal companies cannot consent unconditionally to participate in mining operations which would expose them to the risks inherent in a violently changing international market. However, being almost entirely dependent on foreign countries for raw ore, overseas expansion (in addition to further diversification) is one of the alternatives these companies have to strengthen their foundation for future operations. This is true from both the standpoint of securing a stable source of raw ore and the standpoint of establishing a broad-based profit structure not limited to smelting works operations alone but including opportunities for profit-making at each stage from raw ore onward.

Through overseas expansion, nonferrous metal companies have been making progress in cooperating in the joint development of mines and technology-sharing and other matters. In the future, this kind of cooperation is also needed at home (in addition to, of course, increased efficiency within each company) with horizontal tie-ups to bring together smelting works that are strongly competitive in different areas.

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MacArthur River Mine, Australia—the world's largest zinc mine.