Nippon, Mitsubishi Oil to Merge into Japan's Largest Oil Firm

Nippon Oil Co., Japan's second-largest petroleum distributor, and Mitsubishi Oil Co., its sixth-largest, have agreed to merge in April into the nation's largest oil company with a 24% market share. The new company, to be named Nisseki Mitsubishi Co., will overtake Idemitsu Kosan Co., the current industrial leader, in terms of sales and market share.

It is estimated that Nisseki Mitsubishi will post ¥2.91 trillion in sales and ¥20 billion in pretax profits in the first year ending in March 2000. Comparative figures are projected to soar to ¥1.97 trillion and ¥40 billion, respectively, the following year.

Annual sales of the merged company after a consolidated settlement of accounts, including its overseas subsidiaries, will amount to about ¥4 trillion, making it the 10th-largest oil company in the world strong enough to compete with majors in the world market.

Nippon Oil has a powerful service station network nationwide and is strong on petrochemicals. Mitsubishi is an active oil field developer, currently producing oil offshore Vietnam. Their merger will create an integrated oil company which handles both upstream and downstream businesses, from oil field development to gasoline retailing. The new firm is expected to pursue a price strategy based on scale merit and strive to improve efficiency through the consolidation of their 14,600 service stations.

Japan's oil industry — essentially refining and retailing — is bedeviled by overcapacity, with 13 companies operating refineries with a combined daily capacity of 5.3 million barrels, which exceeds domestic demand of 4 million barrels.

Competition in the Japanese domestic oil market is extremely heavy with the 13 firms having a finger in a small pie. This is underlined by the fact that even the industrial leader Idemitsu Kosan has only a small share of 16%. The deregulation of oil imports in April 1996 has further intensified the competition, with British Petroleum cracking into the Japanese gasoline retailing market and major Japanese supermarket chains following suit.

Photo: Kyodo News

Osawa Hidejiro (left) of Nippon Oil and Izumitani Yoshihiko (right) of Mitsubishi Oil shake hands as the establishment of a new company is decided

Though the number of service stations has dropped to 58,000 from 60,000 at peak times, it still far exceeds the adequate level of 30,000. The current bearish market, resulting from the collapse of naphtha and gasoline prices, has been eroding oil companies' earnings.

At a time when a major shakeup in the world oil industry is picking up momentum with British Petroleum and Amoco of the U.S. announcing a transnational mega-merger agreement last August and other oil firms are striking up similar deals, the Japanese oil industry is facing the challenge of reinforcing its global competitive position.

Japan's 1st Postwar National Bank

Two sets of legislation took effect on October 23 with a view to disposing of swollen problem loans that are plaguing Japanese financial institutions and to ensuring stability of the nation's badly shaken banking sector. One of them, featuring a safety-net law aimed at bailing out troubled financial institutions, calls for infusion of ¥18 trillion in taxpayers' money into collapsed institutions in order to place them under temporary state control and keep their corporate borrowers afloat. The other legislation authorizes the government to pump another ¥25 trillion into normally operating financial institutions to help beef up their capital bases and thus boost the shrinking credit supply. In addition, ¥17 trillion is set aside to protect depositors from failed lenders. A whopping total of ¥60 trillion is thus ready for use in public money to prop up the battered financial system.

The total sum, approximately $500 billion, is equivalent to 12% of Japan's gross domestic product (GDP), a ratio exceeding the 10.5% marked by Finland when it once injected the largest amount of public funds to bolster its financial system.

The Long-Term Credit Bank of Japan (LTCB), on the brink of insolvency amid the nation's protracted economic crisis, sought application of the bailout laws immediately after their enforcement and became the first private bank to be nationalized in Japan since the end of World War II. The LTCB leadership then resigned and Prime Minister Obuchi Keizo named a former Bank of Japan official to head the nationalized bank.

The new LTCB board will seek to improve its asset portfolios through various means, including the sale of nonperforming loans to a Japanese version of the U.S. Resolution and Trust Corp. Legally, the new management has until March 2001 to restore the bank's financial health, let the bank be taken over by another, and restart it as a private bank. The management will seek to complete the process in a year aside from the legal time frame. During the transition period, all employees will be retained, and all deposits and bank debentures protected. The national bank will continue its usual operations, including lending and deposit taking/withdrawal. Outstanding interbank transactions and derivatives deals will both be protected.

In taking control of the LTCB, the government unveiled the results of a probe into its financial conditions. The inspection showed that the bank's liabilities, including unrealized losses in stock holdings, were worth ¥340 billion more than its capital base. The government thus recognized it as a collapsed financial institution. The Bank of Japan, on the other hand, is poised to inject more than ¥2 trillion to help the nationalized bank meet its immediate fund needs and thus ensure the stability of the financial system as a whole.

Stable Food Supply Urged by Government Panel

A government panel has submitted a report to Prime Minister Obuchi Keizo, recommending that the government bolster the agricultural sector as a precaution against possible world food shortages in the 21st century.

The Research Council on Basic Food, Agriculture and Farming Community Issues, an advisory body for the Agriculture, Forestry and Fisheries Ministry, said that the nation's agricultural policy should focus on the strengthening of food supply capacity and the raising of the food supply self-sufficiency rate. While pushing for globalization and deregulation of the agricultural sector, it is important to have a firm self-sufficiency rate target, the report emphasized.

Photo: Kyodo News

The Long-Term Credit Bank of Japan, the first private bank to be nationalized in Japan after WWII

The report reflected drastic changes in the circumstances surrounding the nation's agriculture 37 years after the Basic Agriculture Law was enacted, such as Japanese consumers' shift away from rice and the westernization of their eating habits as shown by a sharp rise in imports of wheat and beef.

The report also outlined these points:

The world population will increase to 6.9 billion in 2010 and to 8 billion in 2025 from the current 5.6 billion, while the planet will suffer from such environmental disruptions as a deterioration of soil conditions, a spread of deserts and frequent acid rainfalls. Such changes would seriously affect agricultural production and cause food shortages, the report warned. Even now, some 840 million people in poor countries are undernourished, while the U.S. and some other advanced countries have a food oversupply.

Japanese people's per-capita rice consumption plummeted to 656 kilo-calories in 1995 from 1,090 kilo-calories in 1965, while livestock products, mostly imported, almost tripled to 435 kilo-calories from 157 kilo-calories during the same period. Japan's food self-sufficiency rate, measured by the calorie intake, sagged to 42% in 1995 from 79% in 1960. Its self-sufficiency of grain came down to as low as 29% from 82% during the same period. Japan now ranks in 135th place in terms of food self-sufficiency among 178 countries.

Agriculture plays versatile roles and is important not only in maintaining a stable supply of food but also in preventing natural calamities such as floods and landslides, protecting the environment and preserving community cultures and other aspects of human heritage.

As specific measures for bolstering agriculture, the government should help nurture young people who are eager to engage in agriculture and allow farming groups to convert into joint stock companies. However, a ban on the ownership of farmland by ordinary businesses should be maintained because unrestricted farmland ownership could result in the purchase of farmland for speculative purposes and interfere with water control and land utilization by local communities.