

JAPAN

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Major mine closures in the past few months have further reduced the size of the Japanese mining industry, and the domestic coal mining sector is almost extinct. Both of the two remaining major coal mines, Ikeshima and Taiheiyo have been closed (November, 2001 and January, 2002, respectively). Among three major non-ferrous metal mines, the Kamioka mine, which had produced lead and zinc ores for more than 400 years, was shut down in June 2001. Because of this closure, lead ore production in 2001 was reduced by 43% from the previous year to 4,997 t (content), and zinc ore production fell 30% to 44,519 t. Other metals ore production was decreased mainly due to weak demand. Gold ore production in 2001 was only 7,913 kg (content), 6% less than the previous year, while silver ore production was 80,485 kg (content), a 22% decrease and copper ore was 774 t (content), a 39% decrease.

The country's two largest copper smelters, Nippon Mining & Metals and Mitsubishi Materials Corp., revised downwards their copper production projection for fiscal year 2002/3 (beginning April 2002). Nippon now plans to produce 400,000 t of electrolytic copper, compared with 440,000 t in the original plan. Mitsubishi's revised plan of the electrolytic copper production is 325,000 t, 10% less than the original plan of 360,000 t. Both companies attribute the revision to a slump in domestic copper demand and lower prices.

Metals production by smelters and changes from the previous year of major non-ferrous metals by smelters in 2002 is as follows: gold (electrolytic) 155,826 kg (+6.7%), silver (electrolytic) 2,293 t (-3.8%), copper (electrolytic) 1,425,691 t (-0.8%), lead 238,192 t (-0.5%), zinc 644,358 t (-1.5%).

Demand

Demand for metal products and other metal-containing commodities weakened further in 2001. According to industry associations' statistics, shipment of electrical cables in 2001 was 854,000 t. This 9.1% decrease from the previous year was mainly due to demand shrinkage in the electrical and communication equipment industry as well as that of exports. Shipments of aluminum and aluminum alloy totalled 882,000 t (3.9% less) than that in 2000. A weaker building sector was the major reason for lower aluminium demand. Consumption by the automobile sector was 1.23 Mt, 3.1% less than in the previous year, with diminished demand for rolled, cast and die-cast aluminium. Among other metal-containing products, production of batteries in 2001 was affected by the IT depression. Battery production was 12% less than in 2000 and amounted to 6.69 billion cells.

According to a forecast by Marubeni Corp., total world demand for primary aluminium in 2002 will be 1.9% more than in 2001, or about 19.7 Mt, with an expected supply surplus of 122,000 t. The Japan Aluminium Association forecasts that total demand for aluminium products, including exports, in fiscal year 2002/03, will increase by 0.5% to 3.81 Mt. The association foresees some signs of recovery in such aluminium-consuming sectors as the information technology and automotive industries.

According to the Japan Copper and Brass Association's outlook, the total demand for elongated copper products for 2002 will be 947,000 t, 2% more than in 2001 but less than 1.0 Mt for the second consecutive year. Domestic demand is forecast at 778,000 t, a 1.3% increase, while exports are forecast to be 169,000 t, a 5.3% increase.

Domestic demand for nickel in 2002 is expected to increase by 4.2% to 207,000 t

according to a forecast by Sumitomo Metal Mining Co.

Metals Companies' Earnings

Most of the seven major Japanese non-ferrous metals smelters experienced better financial results in the fiscal year 2000/01 (ended March 2001). Mitsubishi Materials Corp., Mitsui Mining and Smelting Co. and Nippon Mining & Metals recorded their highest-ever profits, with high shipments of information technology related materials, as well as increased income from smelters.

By contrast, earnings for the fiscal year 2001/02 (ended March 2002) suffered from the bearish IT market and low metal prices. Profits for most smelters are estimated to be quite low or in deficit, as represented by net losses for Mitsubishi Materials and Sumitomo Metal Mining of ¥19 billion and ¥6 billion respectively (based on forecasts for 2001/02 net profit consolidated accounts).

Dowa Mining predicts its profit for the fiscal year 2001/02 at around zero. The company revised down the estimated ¥6 billion profit in the previous forecast owing to a loss associated with restructuring and devalued stock prices.

Cable and wire manufacturers were also hit by IT demand depression. Showa Electric Wire & Cable and Furukawa Electric posted deficits of ¥9 billion and ¥2.6 billion respectively, while Sumitomo Electric Industries and Fujikura just about broke even.

Restructuring

The majority of Japanese smelting and metals production companies have plans to streamline their businesses in the medium term.

In the nonferrous metals sector, Mitsubishi Materials' operations include business in ingots, fabricated metal products and precious metal products. Its cost reductions and restructuring plans are to position itself to remain profitable even at the bottom of market downturns. The restructuring programme

provides for reducing annual costs by ¥70 billion by March 2004. This includes cost reductions of ¥30 billion annually by the parent company. Management plans to reduce annual fixed costs by ¥30 billion, including ¥10 billion at the parent company. Mitsubishi Materials will reduce annual capital spending by 20% in order to lower interest and depreciation expenses.

Mitsubishi management had planned aggregate capital spending of ¥200 billion during the three fiscal years to March 2004, but will reduce the aggregate investment by about ¥40 billion. The reduction will include a freeze on investment in new and expanded production capacity. The restructuring programme provides for reducing variable costs by ¥40 billion annually, including ¥20 billion by the parent company. The plan also calls for a reduction in raw material costs and in every other category of variable costs. The company will concentrate its purchasing, and will computerise operations to minimise costs in materials, outsourced processing and logistics. The company has built solid positions in its core operations: nonferrous metals; cement; silicon and advanced materials; and energy- and environment-related business.

Sumitomo Metal Mining, in its medium-term management plan (to be implemented by March 2004), aims to reduce spending by ¥14 billion, including 500 personnel cuts. The company will concentrate its business on core activities such as copper smelting, electronic and functional materials. It also aims to strengthen competitiveness in its nickel business through the Rio Tuba Nickel joint venture. The 20-year-long project in the Philippines requires a total investment of US\$150 million and involves the production of nickel/cobalt mixed sulphide (an intermediate product for nickel refining), yielding some 10,000 t/y of nickel and 700 t/y of cobalt.

The restructuring plan of Dowa Mining, along with its medium-term strategy, includes consolidating by-products and recycling

businesses into the smelting department, development and enhancement of sales of new types of alloys for connectors and other electrical uses, and the expansion of facilities for circuit boards and rare-earth magnets.

Mitsui Mining & Smelting has placed electrical materials, metals, automobile parts and environment as the core businesses in its medium-term business plan, and aims at an annual profit target of between ¥30 billion and ¥40 billion.

Environmental Activities

Some metals companies have strengthened their environmental businesses. In energy- and environment-related businesses, Mitsubishi Materials marshals technological and organisational strengths in support of building a self-renewing industrial society. Those strengths include well-established capabilities in core operations and in peripheral operations.

Dowa Mining, Nippon Mining & Metals and Sumitomo Metal Mining also consider the environment as one of their core businesses and have established (or plan to establish) environmental subsidiaries by consolidating their existing waste-treatment facilities and recycling plants or buying waste-disposal companies.

Alliances and Mergers

Smelting and metals-producing companies also attempt to improve their businesses by allying part of their businesses with trading companies.

Nippon Mining & Metals Co., Japan's largest copper smelter, and Mitsui Mining & Smelting Co., the fourth largest, are to merge their copper smelting divisions later this year. The new company (Nippon 62%, Mitsui 34%), together with their joint venture in Korea, will have an annual production capacity of 1.1 Mt, which makes the group the second-largest copper smelter in the world after Codelco in Chile, and comparable in size to Grupo Mexico.

Showa Electric Wire & Cable and Mitsubishi Cable Industries plan to integrate sales, research and development, design and the production departments of their power cable businesses in order to reduce costs by disposing of excessive equipment in order to deal with declining demand and to strengthen their competitiveness.

Major elongated copper products manufacturers, including Kobe Steel, Hitachi Cable and Furukawa Electric, are strengthening ties in their overseas businesses, represented by the copper tube joint venture in China by Furukawa and Hitachi.