



MANUFACTURING CHEMISTS ASSOCIATION

1825 CONNECTICUT AVENUE, N. W.

WASHINGTON, D. C. 20009

— FOR RELEASE —

CONTACT:

THE NEW STATURE AND FUTURE SIGNIFICANCE OF THE FOREIGN
MULTI-NATIONAL COMPANY IN THE U. S. PLASTICS INDUSTRY*

By

Don C. Wheaton, Jr.
Vice President

National and Special Industry Banking Division
The Bank of New York

*Presented at the Annual Conference and Outing, Plastics Group,
Manufacturing Chemists Association, September 9, 1970 at the
Seaview Country Club, Absecon, New Jersey.

AP00037276

Will the European and Japanese multi-national companies, now so prolific in their efforts, prosper in our country?

Can we expect the degree of success by them, here in the United States, as our major companies have enjoyed in many parts of the world? Or will the difference in relative timing change the picture? U. S. firms generally have succeeded in their more spectacular overseas operations by bringing superior commercial production technology and marketing knowhow to areas where those functions, in the industries involved, had lagged behind.

Let's consider the major problems foreign multi-national plastics firms face in establishing themselves here:

Financial

Technology and engineering

Marketing and sales

Management communications

Taking it from the top, I can tell you this -- the foreign multi-nationals have the financial muscle. They are no longer weak fledglings. Internal growth, profits and mergers have put them into favorable financial health. For their operations in this country, they have cash to supply equity, they have the deposits and credit strength to warrant bank loans, and their record encourages long-term loans from insurance companies.

AP00037277

Look at some of the European countries with representatives in this financial classification. ICI of England with 1969 sales of \$3,200,000,000 and profits of \$231,000,000. Italy with Montecatini Edison, sales of \$2,500,000,000 and profits of \$66,000,000. Germany with three chemical companies each having sales exceeding \$2,000,000,000 and profits of better than \$100,000,000. France has Rhone-Poulenc with \$2-billion and \$93,000,000. Holland has Dutch State Mines; Belgium, Solvay; and Switzerland will have the combination of Ciba and Geigy reaching sales of almost \$1.5 billion.

On the other side of the world, Japan's leading chemical companies are growing quickly, with Mitsubishi and Sumitomo each exceeding \$550,000,000 in sales with profits of \$15,000,000.

This brings to mind the fact that the Japanese do have a particular problem in financing here. As a nation, Japan is a heavy borrower, both short-term and long-term. As a result, many U. S. banks feel they have extended enough credit to the Japanese government and to companies there. This does not mean to imply any lack of confidence in their creditworthiness but just that banks, characteristically, cannot put too many of their eggs in one basket. For instance, The Bank of New York has extended many millions of dollars to Japan but we feel that, for a bank our size, the percentage of our assets committed there is now as high as we wish to go.

AP00037278

Before proceeding further, let me repeat a quote by a vice president for international planning of a multi-billion dollar conglomerate, as published in a Marketing Memo of Drake Sheahan: "Increasingly, multi-national companies are developing in all parts of the world, and an American company is thus almost forced to become multi-national in its efforts, particularly in Europe, if it is to maintain a leadership posture at home." So the multi-national movement is strong in this country, too, but I plan to limit my comments to those multi-national companies based abroad that are in the U. S. or have the capacity to establish themselves here.

There is no doubt that the multi-national company has acquired stature. The July 30th New York Times noted that "The Bank of America announced yesterday the formation of a multi-national division to serve companies doing business in many parts of the world."

Also I do not want to imply that the movement of European and other foreign chemical companies to the U. S. is anything new. By 1963, they had almost a billion dollars invested here, and at the end of 1968 it was around \$2.5 billion, which gave rise to sales of \$5 billion. Extrapolating from the past rate of increase, conceivably it could reach \$10 billion, with sales of \$20 billion, in 1980. Whether or not this rate of increase can be maintained is a question to be investigated further, and which we at The Bank of New York are studying closely.

AP00037279

Why do they come over here? There are two answers, I believe -- one rather obvious, the other a little more obscure. The United States in 1969, according to chemical industry estimates, manufactured 7,700,000 tons of plastics and resins. This far exceeded plastics production of any other single nation; in fact, it was slightly larger than the plastics output of the entire European Economic Community with its 7,600,000 tons. The foreign multi-national companies not only want to sell here, they each want a piece of that big U. S. production pie. They believe there are profits in the mass production of the United States.

The second reason might come under the heading of pride. They see our multi-national companies going to Europe and to other parts of the world. They have been successful elsewhere in the world. It is a matter of pride to be able to do it here.

Where do the foreign multi-national companies stand on plastics technology? To go way back, we must admit that low-density polyethylene was invented in England by ICI. While there appears to be some legal argument still, it would seem that polypropylene and high-density polyethylene came out of Italy. Over the years, many U. S. companies have obtained licenses from European concerns that have become multi-national companies.

And it continues. Northern Petrochemicals is now building a 500 million pound-a-year polyethylene plant using the BASF process. Recent industry reports say that DuPont will produce a polypropylene film in this country under an arrangement with Montecatini Edison.

AP00037280

Another source tells of a new development in PVC manufacture by Shinatsu Chemical Company of Japan. It seems that this process, which uses 35,000 gallon reactors, will be of much interest to American producers.

Before drawing any conclusions on their technical abilities, perhaps we might look a bit into the background of research and development of these European inventions. Europe was pretty much the birthplace of modern chemistry. European universities trained many research chemists who efficiently plied their trade. So not only did the European countries have a lot of people indoctrinated for this work, but it was much less expensive to run research laboratories there than in the U. S. So they produced many inventions.

There was, however, a basic difference in their approach to building chemical plants using these inventions. They employed mathematical scale-ups of bench-scale processes. The result was a combination of the efforts of research chemists plus mechanical engineers. In this country, through the use of chemical engineers, efficient processes were designed specifically for plant-size operations from the bench-scale experience but not merely using proportional scale-ups. Hence, the U. S. companies were able to bring new processes to commercial reality more quickly and efficiently. Of course, the Europeans and Japanese are catching up.

AP00037281

They are changing their ways. Ralph Landau of Scientific Design in a recent article notes that "Research in Western Europe will become less divorced from direct commercial realities as has been the tradition in the past." The American Chemical Society points out that, for the first time, German students will be able to earn degrees in chemical engineering when in October four universities there will inaugurate programs. Prior to them chemical engineering, as a subject, was part of the mechanical engineering curriculum. Interestingly, it said that the new German degree will largely follow the major lines of the chemical engineering degree in the U. S.

The European and Japanese engineering companies are developing and adopting the "turnkey" concept -- where they can provide the engineering and construction for an entire chemical plant. This trend is highlighted by a recent announcement that Lurgi of Frankfort, Germany has joined with Homer Knost of Baton Rouge to form Lurgi-Knost. The new company is owned 51 percent by Lurgi and was formed to "provide a total engineering construction package, with services ranging from process design to turnkey plants."

To summarize, the European and Japanese multi-national companies can continue to produce plastics inventions but so far, in general, they have lacked the ability to commercialize these inventions on a large scale. Developing engineering companies have helped on this and there are indications of more change. We can conclude they have sufficient technical knowhow to establish themselves over here.

AP00037282

Now that we have established that the multi-national company abroad can finance and probably build a workable plant here, can they market the output? Markets abroad, particularly in Europe, have been well planned and friendly affairs. Competitive selling as we know it here, was relatively unknown. The coming of the common market and the establishment of manufacturing units by U. S. multi-national companies upset this. Also, as I just pointed out, the Europeans have learned to build larger plants and to feel the pressures of selling the output of such plants. Now they are relatively experienced in the U. S. type of struggle for markets.

Perhaps this makes them wiser in assessing the problems of finding here a large enough piece of a market to support an economic plant. At least they seem to be making the cautious approach. One such method is by joint venture, of which there are a number in the plastics field. In a few cases, the foreign company has bought out the domestic partner, as when Hoechst purchased Hercules' 50 percent in Hystron. One I know of went the other way: Ethyl Corporation bought Solvay's 50 percent in Vypak. It would seem this is not a guaranteed way of becoming established.

Another obvious way is to purchase a going concern here. Some have tried this but in a relatively modest way, except perhaps for BASF's purchase of Wyandotte. At any rate, I cannot recall any purchase of a sizable plastics company, nor do I know any foreign-owned company growing to a good size.

AP00037283

He noted they were in a period of digesting their acquisitions here and would cut back on the amounts BASF would be investing in this country.

To conclude, foreign multi-national companies have the financial strength to establish themselves here and support new operations through the formation years. Their basic technology is exceptionally good, although there may be something lacking in their ability to translate it into economic plants. Marketing and language differences cause problems. These are offset by the lure of the large U. S. market, and by the will to succeed.

I believe they will have a tough row to hoe in really joining the U. S. plastics market. But it can be done -- to their benefit and ours. Perhaps by installing expert American management in their U. S. operations and giving them greater autonomy; by believing in the home-grown managers they hire here and accepting their counsel; and by not trying to force the U. S. company to do things the way they've done in the old country when a valid, though subtle, reason may exist for doing those things our way.

#

MCA-3599

9/9/70

AP00037284