

## **Industry Outlook Round Table at 11<sup>th</sup> ICF Congress President's Panel**

**Dr. N. Kurauchi, ICF President**

Welcome to the Industrial Outlook Round Table.

Dr. G. Morchio, former President of ICF, proposed to have a Round Table Panel of the Council Members last year for the Boston Congress, which I thought, was very successful.

In order to succeed such an excellent heritage, I proposed to have similar panel for this Berlin Congress. Now, I would like to introduce the speakers for this panel.

**Mr. Yu-Lon Chiao,**

Chairman , Walsin Lihwa Corp.(Taiwan)

**Mr. Aldo Bolza,**

Senior Technology Advisor, Pirelli Cavi. (Italy), he will speak for Dr.O.Cristianci

**Mr. C. Baker Cunningham,**

Chairman & CEO ,Belden Inc. (USA)

**Mr. Gérard Hauser,**

Chairman & CEO, Nexans (France)

**Mr.Boleslaw Uryga,**

Vice Chairman of the Management Board, Elektrim Kabel (Poland)

**Mr. Robert Venter,**

Chairman Aberdare Cables and CEO, Altron Group (S.A)

Now, I would like to ask Mr. Chiao to start.

**Mr. Yu-Lon Chiao**, Chairman, Walsin Lihwa Corp.

Mr. President and fellow members of ICF,

When I was in college, I heard a very interesting statement by President Reagan.

"If your neighbour loses his job, you have a recession. But if you lose your job, you have a depression." This is a year of both recession and depression. Because, most part of our business are in high-tech., telecom or electronics area. So this is a most difficult year for us. Investors asked me: "How is the cable business and what will be the prospects?" My feeling is that we have never had a good year, and never had a bad year. But it happened to be a very precious cash cow for us this year. Now I will talk about Asia.

### **Asian economy in general**

Many forecasts say that this year world trade will be flat. But, Taiwan, Singapore and even China, have a negative growth in foreign trade this year. Especially in Taiwan, this is the first year over the last 30 years that we registered a negative GDP growth. In my 20 years working experience, I have never had such a bad year like this year. This clearly indicates that the main engines for the Asian economy were the American and the Japanese economy and the high-tech industry, and those are all suffering from a major slow down.

### **China**

The only exception in Asia is China. This year China looks at 8 % GDP growth. All the numbers and indexes of China show lots of optimism, prosperity and growth, bringing a big inflow of investment from the international community.

The very low-cost nature of the economy and big inflow of capital has created a tremendous manufacturing capacity. And this is a big problem to the rest of Asia, especially to Taiwan, which is suffering from the very keen competition from China.

As soon as they grow to a certain stage, China will play the role of the engine for the Asian economy. Their domestic market is now opening up and big enough to satisfy its excessive capacity. Now, the capital that went to China is starting to recycle. I mean that the capital coming out of China starts to invest in Asia or elsewhere. I think South East Asia remains an unfavourable position for rather long time.

### **Cable business**

Cable business for 2001 in my company in China is still one of the best year thanks to the continuous investment in infrastructure, especially in the telecom and power area. I think no one will argue of the potential of Chinese market. The problem is that, even if the market grows more than 300%, still the excessive production capacity in the medium or low voltage power cable area cannot be utilized.

This year, we have enjoyed very good demand for optical fiber cable. I see lots of investment now going into optical fiber and this will lead to a situation similar to power cable. As you know, history will repeat. Like automotive industry and or motorcycle industry in the early 20<sup>th</sup> century, 80's PC industry, or most recently the optical device industry, at the beginning there were hundreds of those industries and today, only 2 or 3 remain after going through the consolidation process. I was wondering how China will go through this kind of consolidation, cross regional, cross provincial or locally? I think this will be a very challenging process for players like us.

I hope we can learn something from European process and so be a survivor also after the 5 to 10 years to come. I would like to share views on this matter with ICF members.

Thank you very much for your attention.

**Mr. Aldo Bolza**, Senior Technology Advisor, Pirelli Cavi e Sistemi SpA  
(Speaking for Dr. Oscar Cristianci, CEO-Energy, Pirelli Cavi e Sistemi SpA)

Thank you Mr. President, Ladies and Gentlemen,  
Although Dr. Cristianci could not ultimately be here with us today, I have some written notes in preparation for this meeting covering points he wishes to convey to you. I will refer very closely to these notes.

## **Pirelli**

In the context of this Round Table which is meant to provide a wide range overview of our industry around the world, I suspect many of you may be asking yourselves the question: What about Pirelli? As this is indeed an interesting question, I welcome the opportunity to address the issue and try to provide some answers.

The shareholders of Pirelli have decided to focus the activities of the Company on the service business and on some of the high technology areas of its traditional businesses, such as optical fibers and cables and high performance tyres. As part of its new strategic drive towards the service business, Pirelli has recently acquired a controlling stake in Telecom Italia, the main telecom service provider in Italy. One of the consequences of this new focus, combined with the large size of this acquisition, is that the energy cable business no longer represents one of the core activities of the Company. This is the reason why, as recently announced, consideration is given to its possible sale. It should be noted, however, that this sale is not regarded as urgent, given that the business is quite healthy and there are no pressing financial reasons to proceed quickly.

There will be ample time, in other words, to find a buyer interested in continuing with the business and willing to pay a satisfactory price to it. Furthermore, after careful consideration, it has been decided that the most appropriate approach is to endeavour to sell the business as a whole rather than splitting it by product or geographically. This is undoubtedly the best way in our opinion in which safeguard the value, the name, the technology and the global presence which have been hallmarks of Pirelli's energy cable business for many decades and which, we expect, will be of great importance for any buyer interested in pursuing it on an ongoing basis.

In the meantime our energy cable business, which is currently giving rise to positive results and showing signs of further improvements, remains the single largest activity of Pirelli and will continue to be pursued with determination and, of course, with great energy.

## **A View on energy cable market**

Having clarified the Pirelli situation, just a few more words about the energy cable market. In the field of high voltage, medium voltage and submarine cables we see a reasonably positive situation with plenty of upside for the future. In addition, we feel the changes which are taking place in the profile of the market are creating opportunities for the promotion of system solutions and implementation of technological advances which will no doubt benefit the most innovative suppliers and, of course, customers. Similar considerations can be made for industrial and special cables. The situation, however, is far less encouraging in connection with low voltage cables and building wires, for which it is difficult to envisage a positive evolution in the short term and which will need to be kept under careful scrutiny on an ongoing basis.

Also on behalf of Dr. Oscar Cristianci, I thank you all for your kind attention.

**Mr. C. Baker Cunningham**, Chairman & CEO, Belden Inc

Thank you Mr. President, Good afternoon, ladies and gentlemen

### **North American Economy**

I am afraid that the near-term outlook for the North America is quite a bit different this year than last year. One year ago, my distinguished colleague, Mr. Rabinowitz confidently predicted that year 2001 would be very fine year. Unfortunately, the customers were not here to be inspired by Mr. Rabinowitz's confidence and failed to co-operate. I mention this, not to be critical of Mr. Rabinowitz, because I shared his view at that time that year 2001 would be a good year for us. I mention it rather to remind you that forecasting future is quite a risky business. It is quite likely that my predictions will not be very accurate either. But, I'll take the risk and tell you that I do hope and expect that year 2002 will show additional growth.

I think there is no dispute that the economy in the United States which is the main driving force in North America has slowed down quite a bit. One month ago, a debate in the US whether we were in fact experiencing negative growth in our economy. The manufacturing sector in general had been quite soft and it is safe to say that was recession, while construction and consumer spending did remain quite healthy.

The terrorist attacks on N.Y. and Washington on Sept. 11<sup>th</sup> has changed the debate. The question is not whether we were in recession. It is now, how long and how deep the recession will be? Consumer confidence was shaken by these events. The retail sales in US declined substantially weeks following the attack. Air transportation, tourism, insurance and other industries have all seen significant slow down in their activities. The financial markets, particularly the US stock market suffered serious declines in value, again this impacts in eroding consumer confidence.

I think there are some optimistic, however. The new unity between Democrats and Republicans in US Government is likely to result in a higher level of economic stimulus than would be otherwise the case. So increased spending from public sector combined with the recently announced reduction in the Federal interest rate and the effect of the tax cuts enacted earlier this year should be enough to offset and reverse the declining economic activity, such we should be seen growth by next year. At least that is the opinion of 26 leading economists surveyed by the Wall Street Journal on Sept. 26, two weeks after the terrorist attack. Further, these leading economists expect growth to gain momentum as next year unfolds and reach a growth rate of 3.5% by the third quarter of 2002. If their predictions are correct, I predict that we will be happier at next year's congress than this year's congress.

Canada and Mexico are, of course, affected by what's happening in US because US are their major trading partners. In Canada, which was already experiencing the slower economy and real concern is slipping into the recession this year. In Mexico, the 2<sup>nd</sup> quarter GDP was flat compared to a year ago, ending 21 consecutive quarter of economic growth. So the story is basically the same throughout the NAFTA trading area.

## **Cable industry in North America**

Referring to our industry specifically. Certainly, earlier this year, fiber optic business was operating at or near its capacity. But by the time summer has arrived, we have seen the market slow down. The shortages existed in 1999 and 2000 encouraged the producers to increase their capacity world wide nearly by 100%. As is often the case, the new capacity was coming on stream just as demand started to fall. We now have a condition at least in the US where the prices are declining on the over supply situation and producers are eager to fill up the capacity to maintain the operating at efficient level. I think an indication of the sudden reversal of fortune in the fiber optic business is the transaction recently announced between Lucent where they sold its fiber optic business for \$2.75 billion. That business just few weeks before was estimated by experts worth between \$6 and \$8 billion

On the metallic side, total North American demand for copper wire and cable declined approximately 2% in the 1<sup>st</sup> quarter. That decline was accelerated to 10.8% in the 2<sup>nd</sup> quarter. We do not know the 3<sup>rd</sup> quarter figure yet but there is an indication of additional decline and probably 4<sup>th</sup> quarter as well. Furthermore, we are pushing to 20 year low prices in copper, which again put down the pressure on our revenue for cable. So, I think we can say safely that downturn is affecting all areas of the business in North America. Certainly low voltage cables are down, building wires, telecom cables, data wire coax cable, CATV cable and winding wire are all down.

The one bright spot we were expecting was in power cables. Driven partly by the rolling blackouts in California occurred earlier this year and some concerns that the adequacy of the power grid to deliver the electricity will lead increasing the spending for power cable in the US. Unfortunately, that has not materialised and even today power cable sector appears to be weaker as well. Making the problem worse for the cable manufacturer is the inventory liquidation going throughout the supply chain. According to an analyst at Merrill Lynch, inventory levels in the supply chain dropped over \$10 billion in second quarter. Luckily, not all of this was in wire and cable but enough was that it is the part of the reason for the sharp decline in wire and cable sales. I think the bright thing to keep in our mind is that sharp decline means the duration will be little bit shorter than earlier cycles.

I think that the current outlook suggests we will continue to see negative results for next few quarters. In the 3<sup>rd</sup> to 4<sup>th</sup> quarters we are expecting to see the business down to 15% to 20% compared last year. Each company in North America has a different product mix, so some may not be so weak and some may be weaker.

As we move into 2002, I expect to see business improving. Renewed spending on communications and rebuilding of lost or damaged office space in N.Y. which is substantial should give us help in shorter term demand. Longer term, we continue to see the paradoxical trend of both consolidation and fragmentation in our industry that was noted in a recent ICF newsletter. I think it is clear that the trend towards more companies that are primarily specialising in wire and cable and fewer companies part of larger more diversified companies will continue. Certainly, the realigning of the industry will continue at least for next few years.

I wish I could have better news on the North American market. But I do take some comfort in knowing that we have been through these down cycles in the past and we always bounced back in a fine style. I know this cycle will be no different and we are looking for better times ahead.

Thank you for your attention.

## **Mr. Gérard Hauser, Chairman and CEO, Nexans**

Thank you Mr. President

As an introduction, I'd like to make a few general comments. For many of us, the year 2000 was actually a good year and 2001 has been a more difficult year. In a sense, there were two years in one. The 1<sup>st</sup> half of the year was pretty favourable, in line with the previous year. Then, there was a sudden slowdown in number of our markets. I suppose it started in the US before the tragic events of Sept.11<sup>th</sup> and spread into other regions including Europe. This sudden rupture has affected the industry. There were headcount reductions in many places. Many companies, small or large, in copper and fiber, in Europe, North America and Asia, are considering divesting part of their cable business. Whilst I think the industry is used to changes, the magnitude of what happened in 2001 was still impressive.

### **European Market-Energy Cables**

#### **A) Distribution and Transmission cables**

The demand for power distribution and transmission cables has increased slightly across Europe, with the exception of few power utilities who have made dedicated efforts to reduce their inventories. Extra High Voltage projects have been cancelled or postponed. The main challenges facing the industry are (1) increasing pressure on price from raw material suppliers, and, (2) the persistence of significant excess capacity. This is not new. As we said at the last Congress, we are still at the bottom of the bathtub. A reduction of installed capacity, combined with sound price discipline, are two fundamental prerequisites for our industry as a whole in order to generate more satisfactory profit levels. On the demand side, there are two trends that will impact the European industry.

First, some power utilities are expanding beyond their domestic boundaries and are looking to co-ordinate their cable purchases across countries. Second, a number of utilities are experimenting B2B solutions, whether it is auctions or e-procurement tools, on their own or within a consortium.

#### **B) General Energy Cables**

At European level, sales volumes have increased moderately during the first semester. However, lower capital spending in many European countries since the middle of this year has had a negative impact on the European general market. Price-wise, downward pressure has remained relatively strong overall in some countries, growing import volumes from Eastern Europe and a few other places, have contributed to more intense price competition. The market conditions have been particularly difficult in Germany where we do not expect any real improvement before the end of next year, at the earliest. On the customer side M & A activity among distributors continues to be strong. As a result, their bargaining power and influence on market evolution is increasing.

#### **C) Speciality Energy Cables**

There is a market for speciality energy cables for industrial applications. We anticipate a fairly flat year for these cables. Some industrial sectors, such as Oil & Gas or Shipbuilding, have experienced strong growth. Others have been significantly affected by the deterioration of the overall economic situation and lower capital spending. The industry is quite fragmented and profitability varies significantly from one country to another, or across market segments. Overall, I believe this market has generated satisfactory profit margins.

## **European Market-Telecom Cables**

Less than a year ago, cablemakers' ability to increase fiber production was seen as the major limit to the insatiable demand for optical cables from telecom operators, both incumbents and new operators. For a while, the market has been euphoric with significant increase of sales volumes and prices until the "Telecom Bubble" exploded. Today many investments have been postponed or cancelled. The market for optical fiber has collapsed. The demand for speciality data cables for Telecom equipment manufacturers followed, albeit at a slower pace. Traditional copper cables for access networks have also suffered as Telecom operators have been forced to tight on investment policies in order to solve their financial difficulties. On top of this, the economic slowdown became more apparent in Europe, affecting the demand for multimedia cables. Finally, the tragic event of Sept. 11<sup>th</sup> aggravated the economic slowdown and affected some more industries such as aerospace. Like others, I have been surprised by the magnitude of the sudden change in the market place. Obviously, the impact has been greatest in the US but Europe has been affected as well.

### **A) Optical Cables and Speciality Data Cables**

During the 2<sup>nd</sup> quarter, it became increasingly clear that sales growth for this year would not reach levels anticipated only 6 to 9 months earlier. In Europe, the market is now in recession and it is not clear if the sales volumes for this year will be achieved in 2002 as Telecom operators look for ways to solve their business and financial difficulties.

Many cable makers have been taken off-balance. Recent efforts to expand resources, both manpower and capital spending, have had to be corrected to adjust to the new market environment. Alcatel, for example, announced last week its plan to cut nearly a third of the jobs in its undersea and optical fiber operations.

### **B) Copper –Telecom**

Past few years, this market has been characterised by a moderate decline. A few months ago, however, there has been a more significant market contraction. Two main factors can explain this evolution:(1) many Telco's have committed huge amount to UMTS licenses and networks. They have become highly leveraged and forced to reduce their debt. As a result, Telco's are cutting spending on network upgrade and expansion as well as reducing their inventories. (2) the unbundling of local loops has created a lot of confusion. Initially, some Telco's were looking for legal clarifications. Then we saw some new operators disappear and others are facing real financial difficulties. As a consequence, incentives to invest in the local loops diminished and many projects have been postponed or scaled down.

Looking forward, this sudden deterioration of the European market will put increasing pressure on prices. Further industry rationalisation has become, more than ever, necessary.

### **3) LAN Market**

For 2001 as a whole, we do not expect any major changes compared to last year. During the first semester, it was pretty much business as usual with moderate volume growth, a good product mix and normal price decline. However, as we approached the summer, there was the first sign of slowdown. Initially, this slowdown was mainly attributable to lower levels of new building construction and refurbishment. Subsequently, there have been some IT spending cuts by large corporations, which had a negative impact on the product mix, which is a key driver

of profitability in LAN market. The weak market for Cat.6 LAN solutions is clear evidence of this situation.

## **Conclusion**

I would like to conclude with just a few words. The year 2001 has been a challenging year. Now, it is almost end of the year and we are thinking over on 2002. I expect that 2002 will bring some more changes in Europe and elsewhere, perhaps negatively. Capacity will have to be cut across the boarder. M & A activity will continue as well.

Thank you for your attention.

**Mr. Boleslaw Uryga**, Vice Chairman of the Board, Elektrim Kabel

Thank you very much, Ladies and Gentlemen

### **Poland and Eastern Europe**

Last year at the Boston Congress, we discussed the relations between the general industry output and cable industry. We especially stressed the mutual dependence of the cable sector and the national economies. We then mainly talked about the dynamic development of the telecommunication sector and the good prognosis for the telecom cable producers, especially fiber optic cables, including Poland and Eastern European countries. But the potential of the market was overestimated, as was the demand for services and the financial strength of the telecom operators. Influence of these factors resulted concerning the demand for cable in minus.

Poland is considered to be one of the biggest cable markets in Central and Eastern Europe. This market is worth over half billion USD, Russia and Ukraine not included. Capacity in the area to serve this market is almost double. I do not calculate the frozen capacity in former Yugoslavian countries, mainly in Serbia where we know the capacity is huge.

The year 2001 has been a period of stagnation for cable production in Central and East Europe. Even some of the products were in recession, such as telecom cables, building wires and power cables. At the same time, big potential for cable production has been inactivated because of the unbalance between capacity and demand. As I told you the total capacity in Eastern Europe is over 40% higher than the market. The year 2001 has been the next step for Poland to adjust the cable industry to open it to competitive world market to make its function properly under fully liberalised condition. The main task to be accomplished by our company under these new conditions is to adjust our production capability to the market demand. That is why the restructuring process has been aimed to implement specialisation of the product and increase daily competitiveness.

The surplus of the capacity over the demand in Poland and Eastern countries changed the geographical structure of cable sales. Domestic market is not dominant market for the local producer any more. Russia and Ukraine excepted, for Central European producers the rate of export sales reaches near 50% of total sales. On the other hand, the import to these countries exceeds 25% of the sales. It means competition in the market is still too high.

The dynamic process of the capital changes in the world cable sector, mostly the concentration of the capital, started also for Polish cable factories. The merger of the 2 biggest cable companies, Elektrim and KFK planned to be undertaken this year has not been accomplished due to the negative decision by the Government office of competition and consumer production.

What will be the forecast for Polish and Eastern producers for next few years? The privatisation process is taking place in Poland and other countries, mostly in power and telecom sectors that will put heavy and great influence on the development programs of the economy. The process is for adopting European Union standard has started, including the infrastructure sector, such as communication, re-building, road construction, environmental protection, etc. is taking place. These newly undertaken projects accelerate the demand for cable products also in the near future. Our

forecast for the growth of cable demand for next few years will reach 5% to 8% per annum.

The main question is: does the general economic situation of the world and Europe favour this prediction? Considering today's situation after Sept.11<sup>th</sup>, it seems to be very difficult to answer if this will be realised or not.

Thank you for your attention.

**Mr. Robert Venter**, Chairman Aberdare Cables and CEO Altron Group

Thank you very much, Mr. President. Good afternoon, Ladies and Gentlemen

## **Southern Hemisphere Market**

I will be covering in more details Africa and South America where we have, through our business, more activities. I rather do not touch on Australia.

Recently, I talked briefly with some of the Council members about the challenges we have to improve the perception and growth prospect of our industry, particularly towards our investment community. Over the last few years, that has been a bit of challenge. Investment community has been very driven towards the positives of the information technology area and also broad telecommunication market in which our company operates as well as cables. But cables are often being a side of business, which the investment community has questioned. However, in the past one year, we have been able to gain some benefits and maybe some of the sentiment have began to change as we see the strength of being able to have the business that there are not highest growth but certainly provide more stable return and, particular in these difficult times, provide a cash flow generation that is acceptable.

## **Africa**

I would like to look at macro economic factors. Last year in Boston, I mentioned that Africa was a lost continent and our region was difficult to operate in. Nothing has been changed in the past year. In fact, political and economic volatility within Africa and, to some degree also, in South America is more and higher than that has been in the past. This, so-called normal volatility will be exacerbated by what happened on Sept. 11<sup>th</sup>. Only time will tell how much the impact will be. One must be concerned, even though the major drivers of the world economy, such as US, Europe and Asia, would be impacted, invariably emerging economies of which much of Africa and part of South America are included will be impacted heavily. In particular, we have already seen some of the warning signals. Exchange rate in our region has been deteriorated significantly.

We have over last 10 to 15 years been accustomed to the double digit of depreciation of our exchange rate versus US \$. This year, taking into account the very sharp decline since Sept. 11<sup>th</sup>, our currency depreciation is down some 25%. This provides and presents very unique challenges to manage the business in the region.

On the positive side, export opportunities are improved. However, these are to a large degree offset by high percentages of dollar dominated raw materials in our products cost somewhere 60 to 70 %. Also the ability to pass our increased cost on to our customer becomes more and more difficult. This results in a much greater drive towards the internal efficiency and inevitable reduction of the capacity to improve the efficiency. Also, the challenge of the currency brings us the further cost of capital investment and expenditure into much more different plan.

On more encouraging note, there have been some very concrete steps within our region to liberalise and to deregulate in the energy and telecom market. Nigeria and South Africa have announced the privatisation of energy and telecom network. Also, announced the introduction of the 2<sup>nd</sup> network operators and for cellular 3<sup>rd</sup> networks as well. This is an encouraging sign that will drive some additional demand for some of the cable products. This trend will be very similar to that of Europe, but some 3 to 5 years behind. Also, our region is taking more phased approach compared to the Big-Bang approach with regard to deregulation, privatisation and liberalisation.

These initiatives are still in early stages, but signs are positive and continue to stimulate some demand.

## **South America**

South America is addressed by ourselves more on export basis, as we do not have manufacturing facilities there. We serve through our African and Spanish operation. As Mr. Hauser said earlier about markets, for our customers it was more about installing capacity, less find their market. Not only the demand has slowed down significantly, it went further that firm orders and firm contracts have been cancelled. As an exporter there, possibly the weakness we have seen is not as significant as local manufacturers see. But surely the sign of the trend of weakness is showing, particularly in telecom market.

## **Outlook by Products**

### **(A) Telecom(s)**

Deregulation is providing some local demand. This is encouraging, but in general, the world wide slowdown is impacting heavily on organic demand of operators in our region. The above applies to both copper and optical fiber cable products. Our prospective would not see a recovery coming before the end of 2002 or 2003.

### **(B)Energy/Power**

There have been some positives. We have seen some recovery, particularly in high voltage and medium voltage power cable markets. Both demand and pricing have improved. Much of this is the result of the lessons we learned .The result of prior factory rationalisation and the consolidation and importantly the balance of demand and supply, better capacity utilisation. Demand and supply is reaching an area of equilibrium, this creates a much better structure than we see in the low voltage market, including the building wire segment. Here we've seen the buying power of distributors increasing. We see commoditisation of our products, lower barriers to entry and much more difficult cases in passing on the currency and metal fluctuations to our customers. There were new entrants to this market with lower entry barriers and this results in very severe over capacity situation. Consolidation and further rationalisation are needed in this market segment in order for shareholders to receive an acceptable return on the investment.

In closing, my message is similar to those spoken before by my colleagues. Next few years will be tough, especially tough in telecom segment. Here, the customers' and also competitors' view have been driven by hope and fear...hope that demand would be there and fear that, if your competitor or customer is doing it, you have to do it as well.... as driven to the telecom bubble to the point exploded earlier this year. Here, operations have not taken a pain in terms of downsizing and capacity equalisation, as has been the case of the last few years in energy cable market. Here, we focus, we have, in the future, to make sure that we will return to our shareholders an acceptable return.

I thank you for your time.

**Dr. Noritaka Kurauchi**, Chairman, Sumitomo Electric and President ICF

Time is a bit behind the schedule, however, I ask your patience for few more minutes.

### **Sales trend in Copper wire and cable in Japan**

The sales in the fiscal year 2000 ending last March was 936000 cu-tons up by 4.2% from the previous year. We saw a recovery of the Japanese economy last year and most cable manufacturers enjoyed their good performance after several difficult years. Earlier this year, copper wire/cable sales in fiscal 2001 was projected at around 918000 tons, which is slightly less than last year. However, the latest projection announced one month ago shows sales of 841000 tons down by 10% from last year. The figure represents a 30% decrease from the peak sales recorded in fiscal 1990 and the figure is almost equivalent to that of more than 20 years ago. In addition to several structural changes which have been occurred in the Japanese industry during last 10 years, the sudden economic recession caused by the collapse of the IT bubble in the US economy has put an adverse effect on the current demand of copper cable in Japan.

### **Restructuring of copper cable industry**

In this fierce environment, consolidation and restructuring in Japanese cable industry is accelerating even further. In the area of high voltage power cable, the J/V company named J Power Systems Co. between Hitachi and Sumitomo started its operation on October 1<sup>st</sup>. About half of the production facilities are now in the process of being eliminated or relocated. Furukawa and Fujikura announced a similar scheme in July and started the operation of the J/V company named VISCAS on October 1<sup>st</sup>, incidentally on the same day. In August, Mitsubishi and Showa also followed by announcing their plan to start a J/V within a year in the high voltage cable. The Japanese high voltage power cable industry will be finally consolidated from 6 to 3.

In the area of the building wire or the low voltage power cable, production has been made mostly by medium size company belonging to the group of leading cable manufacturers. In order to adjust production capacity and to reduce cost, consolidation of the subsidiaries in each group has started. Fujikura announced such consolidation in April and followed by Furukawa in August.

In the area of winding wire, a new joint venture company between Fujikura and Showa named UNIMAC started operation from April 1<sup>st</sup>, following the operation of WINTEC Wire, a joint venture between Optec-Daiichi-Denko and Sumitomo, which I mentioned in Boston last Year.

As such consolidation and restructuring has started in various areas, it may take a few more years to produce effective results. But I hope these changes in the Japanese cable industry will improve the business situation in the near future.

### **Optical Fiber Cable**

In the fiscal year 2000, the domestic market expanded to 9.4million fiber-km up by 42% from 1999. The latest forecast for this fiscal year indicates 15.3 million fiber-km, 63% increase from that of last year. This rapid growth of the demand in Japan came from the strategic investment of telecom operators to prepare for FTTH in the subscriber market. In Japan, the broadband access to subscribers utilising

conventional copper cables as in the cable modem system or the ADSL system have not been introduced till very recently.

The cable modem system started a few years ago and ADSL started last year. Once these systems were introduced, they have shown very rapid growth, which stimulated the telecom operators to focus on the subscriber market in the future. The telecom operators, namely NTT and major N.C.C. started aggressive investment to prepare for the FTTH. Or, in other words, investments to FTTC to secure the subscriber market in the future. The current fiber cable demand in Japan does not correspond to the actual demand of the current subscribers. So, in that sense, the situation is somewhat similar to the case of so-called "telecom bubble" in the US or Europe, a year ago. The suppliers in Japan are now cautiously watching the behaviour of telecom customers. According to some research, the fiber production capacity in Japan was around 20 million fiber km last year, about half was for export. Since the capacity must have increased from last year, there should be surplus capacity now because of the decline of the export sales, though the fiber cable sales in Japan has shown a considerable increase.

### **South East Asia**

Finally, I would like to touch on the business in South East Asia.

The economic chaos subsequent to the currency crisis of 1997 seemed to be stabilised last year. However, the slowdown of US economy since early this year is seriously affecting this area's economy. As you are already aware, during the last decade, South East Asia has become the production basis for the world economy. Japanese cable manufacturers also shifted their production of OEM cable products to South East Asia to cope with the demand from electronics and IT industries in this area. The recent Profit and Loss statement of Japanese cable manufacturers on consolidated basis has been closely affected by the economy in this area. Further more, the supply chain management (SCM) has been applied globally in electronics industries and economies in various regions are closely connected as a network. The recession in the US gave direct effect on the South East Asian economy and subsequently came to Japan very quickly. Looking back the situation since the beginning of this year, I feel like watching the propagation speed of the economic shock-wave in the experiment on the effectiveness of computerised sophisticated SCM systems.

Thank you very much for your attention.