

## **INDUSTRY OUTLOOK - ROUND TABLE PRESIDENT'S PANEL**

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

Good afternoon Ladies and Gentlemen!

This is the round table presentation just before the General Assembly. The subject of this round table is "Industry Outlook". Each speaker is either a current ICF Council member, a candidate to Council or observer at the Council meeting held in Beijing yesterday. The presentation this time is rather flexible in allocating the scope to each speaker. I asked the speakers to talk freely how they view the current industry either in the region, the country or the company they represent.

### **Mr. Gérard Hauser, Chairman & CEO, Nexans France**

Good afternoon everybody! Whether it is in good times or bad times, it's always a pleasure for me to talk about our industry.

One year ago, when we all met in Berlin, the cable business was already pretty challenging. A major slowdown had occurred in many markets worldwide and cabled makers were actively rationalizing their operations to cope with this sudden decline. As you remember, the Berlin convention was held in October last year, one month after the tragic events of September 11. Things have not improved much since. On the contrary, the consequences of the events of September 11 can still be felt and 2002 will be another challenging year for the cable industry across the globe, including Western Europe. So let me make a few comments about the European cable markets.

**In the telecom markets**, the crisis is severe and real.

European telecoms have themselves created mountains of debt, trying to become global through expensive acquisitions, spending more than 100 billion Euros to acquire 3G licenses and making aggressive network investments. When the internet bubble collapsed, their stock price fell to extremely low levels and most telecom operators found themselves in real financial trouble.

As a result, they suddenly cut investments which had dramatic effects on our industry. Sales of optical cables and, to a lesser extent, copper telecom almost vanished. In addition, cable sales to telecom OEMs such as Ericsson, Nokia or Alcatel declined sharply. For some types of telecom cables to some customers sales went down by 30% to 50% or more, compared to peak levels.

What were considered only 2 years ago as promising market segments with high growth and profit potential has become a major source of concern. European cable players have taken action to cope with this sudden change, by reducing their cost base through plant closures and headcount reductions. It is likely that some players will exit these markets, partially or completely. I

guess it will be a long time before our industry achieves the levels of profitability found in these markets during 2000 and the first half of 2001. But telecom and internet traffic is still growing at double-digit rates, and the demand for telecom network and OEM cables will eventually recover.

In the European LAN markets, the overall demand has not improved since the second half of 2001 when corporate customers started decreasing their IT spending. And considering the current macro-economic situation in most European countries, many companies are tightening further their investment. A pick up in LAN cable consumption is unlikely in the short term.

**Let me turn to the European energy markets.** With the collapse of the telecom market, the energy market has become vital to many players and to our industry as a whole. This market has been much less volatile but its health is still precarious.

I'll start with the construction cable market which, overall, has regressed during 2002. The residential market has been flat for Europe as a whole but varies across national markets. In the industrial construction markets, the demand has declined sharply; say something between 10% and 20%, as customers reduced their capital spending. Net-net, the construction cable market in 2002 has been characterized by lower volumes, lower prices and higher material costs which resulted in depressed margins for many players.

The OEM segment comprises a number of different industrial sectors such as automotive, oil & gas or industry automation with their own dynamics. Obviously some sectors did better than others, but for the segment as a whole, the poor general economic situation in Europe has had a negative impact.

A few words about the third and last segment, power cables for utilities. This segment had a rather good start in 2002 but experienced a declining trend during the second half in many national markets. Profitability in many markets remains too low with the persistence of excess capacity and additional price pressures from many utilities. 2003 is likely to be a difficult year.

**In summary**, the European market has been, to say the least, sluggish since the second half of 2001 and there is an apparent consensus that this situation is likely to continue through 2003. In that context, most European cabled makers have been affected and are reporting excessively low margins.

The challenge we all face is to take advantage of these bad times in order to prepare for better times in the future, which means addressing some of the structural weaknesses which our industry has been facing for many, too many, years. Thank you for your attention!

**Mr. Valerio Battista,**

CEO, Pirelli Cavi e Sistemi Energia SpA (Italy)

### **Energy Cables and Systems**

The current situation in the field of energy cables is difficult but not substantially different from the one applicable to many other areas of industrial activity which have not been affected by the "boom and bust"

syndrome of the last few years. The general situation of the economy and the problems associated with the structural changes which are affecting many of our major customers have given (and are still giving) rise to reduced investments in transmission and distribution. As a result demand for energy cables is relatively low and operating results are not satisfactory. Under these circumstances further cost cuts and selective capacity reductions are inevitably called for in the short term.

On the other hand, investments regarding the transmission and distribution infrastructure have been lagging, in many countries and for a considerable period of time, well behind the requirements associated with load growth and liberalization. There is therefore a clear need to strengthen existing networks and to introduce new links and interconnections. Given the low degree of acceptance of overhead lines, it is reasonable to assume that such actions will require a growing proportion of transmission cables.

The timing associated with the transformation of the above potential increases in demand into orders will of course vary from one market to the other but it is in any case quite clear that significant recovery will require positive changes in the economic cycle. Other factors that can be expected to have an effect on the timing of recovery are the rate of progress towards a more settled structural set-up of the utility industry and the re-focusing, which in some cases is already becoming apparent, of transmission and distribution operators on their core business rather than on alternative fields.

Putting everything together and barring dramatic changes in the economic cycle, I expect that 2003 will be fairly flat and not significantly different from 2002, even if possibly with some positive signs toward the end of the year.

### **Telecommunication Cables and Systems**

Moving on to the field of telecommunication cables, throughout the late Nineties and up to the middle of 2001 the telecommunications industry saw a period of unprecedented growth, driven by a high forecasted demand for bandwidth.

The resulting large availability of bandwidth, however, forced unit prices down and made many carriers unable to find enough traffic for their networks. By the first half of 2001 there was talk of a bandwidth and fiber glut and shortly after this was followed by a sharp and sudden downturn in orders. Since then there has been a steady succession of operators and carriers running into severe financial difficulties. Likewise, almost all the suppliers of equipment, including fiber and cable, were placed under strong pressure and are undergoing stringent programs of cost cutting, restructuring and consolidation while they continue to develop new technological solutions for the future.

Recovery in this field necessitates, in addition to positive changes in the economic cycle, a "clean up" of the present financial situation and a

return to confidence in the investment community, further consolidation in the industry, particularly on the supply side, to remove unwanted production capacity and the development of new solutions aimed at increasing the "content" of broadband services and stimulating the demand for more.

A significant recovery in 2003 is therefore unlikely and the outlook for the future remains uncertain. Thank you.

**Mr. Jerzy Burdzy,**  
Deputy Chairman, TELE-FONIKA Kable SA (Poland)

I would like to take this opportunity to introduce Tele-Fonika Cable Group (TF) and its activities in Poland and in the European region. Tele-Fonika's shareholding structure is very simple, it is owned by a single person.

Tele-Fonika's cables business began ten years ago. In January 2002 Elektrim Cable Group was acquired. It is another example of a small fish swallowing a big one. Today TF consists of six cable manufacturing units, all located in Poland, employing 4500 staff and manufacturing all types of cables, telecom, both copper and fiber, general cables, power cables up to 400 kV and special cables. 40% of the production is placed on the home market, 40% is export. Of course as the majority of us TF is not immune to adverse economic climate. Polish GDP dropped from 6.5% in 2001 to 1.5% in 2002. The unemployment rate is 18%, the number of construction permits is down by 30%, telecom investment is down by 40%. As a result cable consumption in Poland declined by 16 % in the first half of 2002.

We face a very similar pattern in Ukraine, Russia, Lithuania, Czech, Slovakia and in the Hungarian and Bulgarian markets, where projected 2002 GDP indicators had to be considerably scaled down. Economic slow down in this region made cable production overcapacity more acute and resulted in price erosion.

What shall we do to cope with these difficult times? We all talk about a need for self-restraint in production capacity. Are we going to be successful applying this therapy? Personally I don't think so. We all have shareholders demanding reasonable return on capital employed and very tough and expensive laws for closing down production units. We do not expect good days to be back this year or next year. We need to achieve severe cost cutting by restructuring existing production, by specializing production and employing updated more efficient technology, transferring production to lower cost countries.

Another problem of the cable industry today is the way we distribute our products. In TF we believe that the cable distribution chain in Europe is too long. We have importers, distributors, purchasing groups, wholesalers, contractors and finally end users. We believe manufacturers today should play a more active role in the distribution of their products to be able to enrich their production margin by additional margins earned from distribution. In good days there was a lot of room for profit to be made for everyone. Today

we have to be more reluctant and maybe reconsider the process of bringing our products to those who use it. Thank you very much for your attention.

**Prof. Izyaslav Peshkov,**  
General Director, VNIKP JSC (Russia)

Ladies and Gentlemen, I would like to say some words about the situation in the cable industry in the former Soviet Union.

Our association Electrocable is combining all cable factories of ex-USSR and all parts of Russia. A total of about 60 factories, of which 32 are in Russia and the second largest number of producers is in the Ukraine, followed by Belorussia and so on.

We have a transition period, that's why for us it's necessary to have an association with other functions than e.g. here in ICF. We need to work in a situation between socialism and capitalism. Sometimes this causes many difficulties in our work.

You know that we had an economical crisis in the early 1990's, and by end of 1998 you could call it catastrophic. But since then we have had the time and opportunity to increase production. And now, last year we produced cables and wires with a volume of about 60% of what it was in 1990, the final year of the USSR. In 2001 we used about 200,000 tons of copper and 100,000 tons of aluminium, that's why the situation is not spectacular, but this was nevertheless an increase of 11% compared to 2000.

Now I would like to look at the situation for specific types of cables.

**Optical Cables:** In each of the last 5 years we increased our production by 40% to 50%. In absolute numbers, this does not reflect a big quantity of cables. In addition we had some problems last year and at the start of this year which were not related to demand. The head of railway ministry was removed from office and as a result some projects were cancelled. In the field of telecommunications, we had an increase in demand and were able to work normally.

**Power Cables, LV and MV:** We increased our production each year by 5% to 7%, not more. There were difficulties with overhead lines, aluminium and steel aluminium wires because our customers did not have enough money for investments.

**Enamelled Wires, Magnet Wires:** Here we had an increase of 3% or 4% for all types.

**Telecom Copper Cables:** For economical reasons, in Russia and ex-USSR, the question of fiber to the home has not yet been decided. This explains the increase in telecom copper cable production of about 6% to 7% every year.

**Building Wires:** This is a successful field of production. In the first quarter of this year there were many difficulties, so we couldn't start working normally until March. This means the optimistic forecast is for a 5% increase and the pessimistic one is zero.

Thank you very much.

**Mr. C. Baker Cunningham,**  
Chairman and CEO, Belden Inc. (USA)

When I spoke to this group last year about this time, the US economy was in recession, and most cable companies were experiencing weak demand. This year, the overall economy is better, but unfortunately the wire and cable industry is not participating in that. In fact, industry conditions are much worse this year than they were last year.

In the US the consumer part of the economy is holding up very well, that is automobiles, housing, retail sales are doing well because unemployment and interest rates are low and personal credit is very easy to get. On the other hand, capital spending by businesses is down, and in the technical sector, particularly in telecom, it's down quite a bit.

Though base interest rates are low today, business credit is more difficult to get because of tighter lending requirements and the spreads over LIBOR particularly for small and medium sized businesses have increased.

Overall economic growth for the first three quarters of 2002 was about 3.3 %, but revenues and profits for the wire and cable industry have been down sharply in 2002 compared to 2001.

Most economists in US are predicting continued economic growth in the range of 3% to 3.5% for next year, but there is some concern that the falling stock market in US will cause the consumers to become concerned and slow down their spending before the capital spending by business has a chance to recover, and therefore we could have a "double dip" recession.

So let me turn to the wire and cable industry specifically. Demand for optical fiber has fallen dramatically, perhaps as much as 60%, since it peaked in 2000. And the collapse in demand is primarily due to sharp reductions in capital spending by the major incumbent telephone companies, and the financial failure of many of the competitive local exchange carriers that were started up a few years ago. Because of the overcapacity in the industry prices have come down rather substantially, by as much as 50%.

This decline in telecom spending affects not only fiber but copper products as well. Although copper telephone cables did not enjoy the boom of recent years that fiber did, we are experiencing the bust. In addition to the financial pressure from the heavy debt loads incurred by the spending spree of the 1990's, the Bell operating companies are on what one analyst calls "a capital spending hunger strike", and that's to try to persuade legislators and regulators to change the rules that require the Bell companies to sell capacity on their networks to their competitors at prices that they consider to be unfair. Copper telecom cable demand is down some 40% from the peak year of 2000 and at the current rate of spending that implies that the current existing plant has a useful life of about 140 years for their \$100 billion plus installed copper network.

Markets for CATV coax, data cables, broadcasting, industrial automation and other specialty cables are down about 25% from peak levels, but at least they seem to have stopped getting worse. Again, falling demand has caused some downward pressure on pricing, with data cable being under the most pressure.

Turning to energy cables, demand fell about 20% last year and is fairly stable this year. Increasing use of electricity, plus a need to increase capacity of the power grids to prevent “brownouts”, would suggest growth, but on the other side the utilities need to conserve their cash and also to strengthen their balance sheets and there is also some pending legislation that is causing uncertainty and as a result the utility companies are cautious in spending.

Demand for building wire has been helped by the strong housing market, but those gains are offset by very weak commercial and industrial markets, and margins remain very low.

Magnet wire is also affected by the cyclical downturn, and this sector is also experiencing a trend among American OEM customers to shift their production to other regions of the world and the magnet wire suppliers are moving to be close to the customer.

So, what is the outlook for the markets? I’m afraid that we are not looking for a strong rebound in 2003. An awful lot depends on the credit markets and the continuation of consumer spending. The recovery in telecom is somewhat harder to predict because of the issues specific to that industry, but I don’t know of anyone who is predicting a recovery before 2004. Of course, world events could overtake the current situation and make the future either better or worse.

In the meantime, most American wire and cable companies are continuing to adjust their operations to the current market conditions, and that means cutting employment levels, closing factories, looking for ways to increase efficiency and conserving cash as we manage our way through this difficult economic period.

Thank you!

**Mr. Derek Lawrence,**  
Executive Vice President, Corning Cable Systems (USA)

It’s a pleasure to be here as an observer. Corning is a US based company but we view our telecom business as a global one and so I am taking the liberty of making a few remarks about four of the most important regions that we focus on, those being NAFTA (North America), Europe, Japan and China.

Corning’s cable business is essentially limited to optical communications cable and the ancillary equipment required to go along with it. Especially at this time we are glad that more than half of Corning overall is now not involved in telecom in any way because it is such a tough situation. Overall we see an extremely depressed level of business and significant price reductions. Certainly we have never experienced this level of reduction both from a depth and rapidity standpoint.

Measured by relative percentage changes the most difficult region may be Europe. As Mr. Hauser mentioned, customers are heavily indebted due to their wireless investments. There is a lack of competition between service providers to stimulate investment. There are significant inventories with certain of the customers. We still see some national preferences for local supply beyond logistics and service benefits and a wide variation of products

which hinders any ability to achieve synergies and complexity reduction. And then social programs and policies moderate our ability to flex capacity in response to the market.

**In the case of NAFTA,** the infrastructure based competition for local exchange carriers has virtually disappeared. There are still some competitive exchange carriers but typically not now infrastructure based. Carriers are not ready to make metro/access investments without some regulatory reform and stimulus. Purchasing levels are down to pre-telecom reform levels, volumes are down to levels seen in the mid 1990's. It's really a "maintenance only" mode that customers have gone into. There are a few, I would call them astute, customers even expressing concerns about viability of suppliers in the long term so they do recognize the tough times that everybody is in.

**Moving on to CHINA.** China seems to be unique in its challenges. The market decline is not as severe as in other markets such as Europe and North America, but investment in manufacturing capacity continues and even announcements of new investments in spite of the reduction of consumption. In contrast with almost all other sizeable markets, the mutual benefits to suppliers and customers of longer term contracts are not being realised, it's pretty much a spot-bid market. A concentration of the market is occurring. But we have seen a reversal in the concentration into the top ten suppliers, i.e. the amount of the market provided by them, whereas for several years in a row there was a concentration, just recently there has been a reversal in that situation.

Consolidation has been necessary in nearly all other markets suggesting the same will be true in China. But current trends do not indicate that this is about to happen.

**Lastly JAPAN.** We see that as a relatively bright spot in an overall gloomy picture driven by the investments in fiber to the home. The Japanese market has surpassed the US as the world's largest for optical communications cable. And if the fiber to the home deployment really happens I think it will give Japan a competitive edge which may stimulate Europe and NAFTA to legislate reform and help those markets. One concern about Japan is the subscription rate for fiber to the home, it is at a substantially lower level than I believe business plans were developed on, and if the sign up rate by consumers and businesses does not improve it is hard to believe that the level of investment in fiber to the home can continue.

Just in closing in terms of when will things get better, we have received no indication from any customers as to when that might happen and so we in essence have no visibility and would not say that within 12 – 18 months we really expect recovery. Thank you.

**Mr. Denys Gounot,**  
Former President, OFS (Lucent Technologies) (USA)

As you know, since our last congress in Berlin, Lucent has achieved its "refocus" on global telecom systems with the divestiture of its Optical Fiber

Solution Business. This was a major new milestone in the evolution of this industry, considering the position of Lucent OFS in the market and the contribution of the Bell Labs Innovation in the fiber area.

A deal was closed at the end of 2001 with Furukawa, already a partner of Lucent and FITEL for 10 years. This was the first major deal in this industry between Japanese know-how and North American IP or technology. Furukawa also included CommScope as a minority partner. In a side deal, just closed at the end of last month, Corning took over two Chinese JVs from Lucent OFS.

So I will now leave the floor to Eddie Edwards, CEO of our new OFS Group, to speak more about the new environment and the market. Needless to say, there was no pause in adapting to the unprecedented downturn in the optical market while setting up the base of the new group.

**Mr. Eddie Edwards,**  
President, OFS (USA)

It's not an enviable position to be the third American based person when the first two have given all the bad news and there is no good news. In Derek's case he is very lucky to be in a company that also has non optical businesses. In our case we have only optical business.

The FITEL business is 100 % owned by Furukawa Electric, it's in fiber making and photonics, BRIGHTWAVE is owned in the majority by Furukawa Electric and CommScope is a minority owner. I will reiterate what Derek and Baker have said in some degree and I will also talk a bit about what we have done specifically to react to the market in America and some of the other places in the world.

We are American based but we do have operations in most of the geographic areas in the world, all in fiber. The US financial markets, as has been said before, are not supporting, and are in fact punishing telecoms when they even think of spending any money.

The long haul business is stagnant; there is a perceived or real glut. I think it is debatable as to which markets this observation applies. The regional Bell companies are waiting for legislated change, even to the point of allowing service to lapse in some areas. Due to the lack of competition, there is no reason for them to spend money. The competitors, many of our former customers, are bankrupt. There is price erosion of up to and above 50% in some cases with a severe market erosion of 60% to 80%. In some of our businesses we have seen erosion greater than that. This should make us feel bad, except that our market position has grown, so I guess we are in better shape than some.

Other markets we are in are soft: Brazil, South America is very weak right now and Europe is soft. One bright spot from our cabling operation is in Russia, where we are seeing growth. As Denys said China, which was a large part of Lucent's business, was sold to Corning about three weeks ago. With Furukawa's assistance we're deciding how to re-enter this market in a cabling capacity and as a fiber provider, which may seem a bit insane with the market situation as it is now with prices. But we have a lot of fiber in the network in China with a lot of demand that we feel we can service the market.

Specific to OFS and what we've done, the last 11 months have seemed like a lot longer than that. We've had a lot of opportunities. Regarding our significant position in long haul, ocean and other premium products, we may have been hurt a bit worse than others, who covered more commodity type products in fiber. We also had a narrow customer base as Lucent provided support, at least in the last two years, to their equipment customers, disregarding some of the other customers in the marketplace, primarily in the United States. In our case we have downsized about two-thirds of our people. That has taken our employment from about 6000 to just over 2000 which is a lot. But we have maintained our technical support capability, the former Bell Labs people that we inherited. We still have a strong force.

We have the ability to ramp up our plants when the markets do recover. We have closed one fiber plant completely in North Carolina, we have three plants left around the world, but we have downsized all of them to meet current or perceived level of demand. We have a new management team. About half of the people, who were there with Lucent, have been changed or their positions altered. In these quiet times, we are focusing on process cost improvement and normal overhead reductions. I believe that we have made a lot of strides in improving the way we manufacture; focusing not so much on being a laboratory based technological company, but also one that is focused on cost. What we see is our technology is proven and understood and as long as our cost is the same, we do have an advantage. But there is no longer a premium paid for what has been perceived in the past. We will also continue to protect our IP.

Regarding the relationship with Furukawa, I think that we are able now to employ the best practices of what Lucent brought to this company and what Furukawa brings to this company, to have a successful future. As Derek said, it is uncertain as to when that will be, but I think that we have sized our company to the right size in order to survive, to become cash neutral in 2003 and to have the future going forward. Thank you!

**Mr. Andrew Stobart**, Managing Director,  
OLEX Holding Plc. (Australia)

Rather than speaking to you about my company or the situation in the small Oceania market, I would like to talk to you about the possible sources of future value in this industry. I make these comments recognizing that these are not new thoughts and many companies are already implementing them. Nevertheless, I think that if we are to look to a brighter future, we do need to find new sources of future value and do more to define our businesses and the industry in which we operate.

Let's start with the question why the industry has done it so tough for so long. Of course excess capacity in all markets has been a major and continuing cause, which has led to lower prices and little supply of power. The customer has dictated the terms of business. Here I would like to make two observations.

Firstly, in some segments the manufacturers, particularly in the general cables market, are too far away from the final customer. As a consequence, the

distributor has taken control of our supply channels and actively and deliberately commoditized our product. In the absence of significant technology, service or brand superiority, price is the only dimension in the purchasing decision. This has put great pressure on costs, hence arises the need for volume and market share.

Secondly, barriers to entry are very low in this industry. This assists the customer, when making the purchasing decision on the basis of price, placing further pressure on the manufacturer's cost. Unfortunately, the cost dimension is too easily replicated by competitors. Cost strategies, although they may sustain business, will not be sufficient to generate superior long term profits. So if we all continue to compete on the same basis, i.e. cost, we will all look the same to our customers. Chances are there will always be someone who will do the cost equation better than you.

Successful companies have to redefine themselves. Today we call ourselves cablemakers, which implies that we are manufacturers. Manufacturers create value by converting materials into useful finished products. However, marketing companies find solutions to customers' needs. We have to think more about ourselves in this manner. This means working more deeply in the value chain with our customers and the people who use our products. The value chain is very long and the cablemaker's position in it results in squeezing, because we operate in a very narrow part of it. But if we instead think of ourselves as marketers and deliverers of solutions which involve cables, this will open up a much wider scope of value for both our customers and for us.

As a good illustration I refer to safety products manufacturer with which I am familiar. This manufacturer has traditionally competed on the basis of price. His new business today is being written on the basis of reducing the injury outcome at the customer's workplace at a lower cost. He is now being measured by his customer on the basis of total injury cost. That includes the cost of injuries themselves plus the cost of the personal protective equipment required to reduce those injuries. That is his obligation to the customer. Thinking in this manner creates many more value generation opportunities for what we today call the cabling industry. Thank you!

### **Mr. Yu-Lon Chiao, Chairman, Walsin Lihwa Corp. (Taiwan)**

Good afternoon Ladies and Gentlemen!

To summarize the situation of the optical cable market in China, the business is bad and the price is terrible. The power cable business is good and the price is terrible. Not many of us enjoy profit in this country. I think the problem lies not in the prosperity of this market, but in the oversupply situation. In the cable industry we have created the problem for ourselves.

I would like to talk about my personal view of China's political and economic environments. I will look at China's development in the last 24 years, starting from 1978 with the fall of the gang of four.

For the first 12 years from 1978/79 to 1990, that is the year after the Tianmen Square Incident, I would call this the embryonic stage, when there was a lot of

experimentation with open liberalization. We have heard of things such as bird nest economy and the black cat or white cat theory, i.e. whichever cat can catch the mouse is a good cat. We have heard of big planning / small market economy theories. We have seen places open up like Shenzhen, like Zhuhai as experimental zones. We have seen four companies, like Guangda, starting to have offices in Hong Kong and beginning trading with the outside world. From 1990 until the year 2002, the next 12 years, I will call the development stage. After the Tianmen Square Incident in 1989, first I would like to offer my respect to the Chinese government. Instead of closing down the country they still continued to open up. In these 12 years we have seen that the infrastructure has been developed. I still remember in the early '90s we had a hard time to find a telephone and also to find a toilet. In just 12 years we have seen the development of roads, of power utilities, of telecoms, of hotels and of all the amenities needed for people to do business here. We have seen stock markets develop, as well as the banking industry and logistics such as airports. This year we have chosen Beijing for our conference, it could not have been a better time. If we had come three years ago, we probably would not have been able to enjoy it as much. If we were to come three years later, so much would be changed, that we would be unable to experience the past. These 12 years have been a development, a fundamental building stage. Looking forward to the next 12 years, these will be the growth stage. We have seen this country joining the WTO. It is the first test for this market to begin competing internationally, to open up to competition with the international players. We have seen the impact to Shanghai and to the people here. Now the Olympic Games will be held here in the year 2008, which will be a real milestone for this country and an opportunity to show the world, that they really have opened and changed.

The real gain for this country is not just the event itself, but the political reform. This year we will see the 16<sup>th</sup> General Party Assembly held in Beijing in two weeks from today. We are talking about historical landmarks, I would say that it is not just the historical change in leadership from what they call the third generation to the fourth generation; more important is that the party has redefined its mission. The party no longer represents the proletariat, the working class. Their new mission is called the three tasks: the first being to advance productivity, secondly to advance culture, thirdly to represent the interests of the vast majority of the people.

We know that economic development has a lot to do with productivity. Whether it is the banking system, whether it is the road system, whatever business practice in question, it is all related to efficiency. That means many things have to change in this country to link up with this so-called advanced productivity. Advanced culture is part of the social structure and is related to the political structure, how the country is governed, how taxes will be collected, how people will treat the businessmen or the workers, how equality will be built between the rich and poor, the workers, farmers and intellectuals and entrepreneurs. The interest of the majority of the people is related to wealth and not just the class revolution. They have very cleverly changed the way they speak of continuous revolution as regards the class of people. They say, we will progress and evolve with time and the world. I feel these words to be very friendly to businessmen. In a business world we need to continuously

restructure to meet the challenges of the changing world. This will be of foremost importance in the coming decade.

Secondly, they are working hard in order for this capital shortage country to become a capital adequate or even a capital surplus country. How do you link the wealth between the people and those needing it, such as the enterprises, or between the governments? This needs to be developed within this market.

The third important factor is the entrepreneurship. The economy here, as we enter the next decade, will find that private enterprise is finally generating almost half of the economy. The communist party recognizes this and just announced that they will allow entrepreneurs to join it, which is very symbolic for the development of entrepreneurship. People who start and develop their own business will be the main force in developing this economy in the coming decade. So I think these three things will take China into a continuous growth.

There are still a lot of problems in this country. In my opinion, the biggest one is oversupply. For 90 % of the products, whether it's food, clothes, TV, or anything, there is an oversupply and inefficiency. This will require regulative legislation. But I give a lot of credit and confidence to this government. They have come a long way. If I were to bet on this country, I would bet on the optimistic side for the development in the next decade. Thank you.

**Dr. Noritaka Kurauchi,**

Chairman of the Board, Sumitomo Electric Ind. Ltd (Japan)

Now, the last speaker is myself, representing Sumitomo Electric Japan, and I would like to talk about the recent status of the domestic market in Japan. The copper wire and cable market in Japan is continuously shrinking for the past 10 years. The domestic shipment of copper wire and cable in Japan in fiscal 2001 was 827,000 copper tons, dropped by 12% from fiscal 2000.

For fiscal 2002, continuing structural problems along with consecutive low or negative GDP growth during past years will cause further damage to the copper cable demand. According to latest projection, the domestic shipment will drop to 793,000 copper tons, or 4% lower than last year.

According to the statistics in ICF letter number 40, the world wire cable consumption in 2001 was 10.6 million copper tons. By country, US has the largest consumption of 2.1 million tons, which is about 20% of the world. The second is China, which has 1.6 million copper-tons and a 15 % share. The third position is Japan with 800,000 copper-tons and an 8% share.

Let us look at the trend of consumption in the five year period from 1996. The world consumption increased by 12%, US showed an increase by 5%, China has a 55% increase. On the other hand, Japan showed a decrease by 15%.

Around 1996, China and Japan were on the same level with each other, but after 5 years, China showed nearly twice as much consumption as Japan. This fact shows the remarkable contrast of the recent changes between the two countries.

Japanese cabled makers are now eagerly pursuing restructuring process and consolidations in the main areas of copper wire and cable, such as the HV power cable, the LV and building wire and winding wire. The concrete

schemes and the names of the new joint ventures have been reported in the recent ICF newsletters.

In contrast with the copper cable, the optical cable market had been strong at least until last year in Japan. In fiscal 2001 the shipment of optical cable to the domestic market showed a significant increase to 17.3 million fiber kms, up by 83% from 9.4 million fiber kms in fiscal 2000.

This rapid growth came from the strategic investment of telecom operators. The DSL broadband service using conventional copper cable started two years ago in Japan and the number of the DSL subscribers exceeded 4 millions at the end of last month, which increased by about six times in one year. Such rapid penetration of DSL broadband service stimulated NTT and New Common Carriers. They rushed into aggressive investment to prepare for competition in the future FTTH market.

For fiscal 2002, there is some setback. The current projection of domestic optical cable shipment is 11.7 million fiber kms, 32% lower than last year.

Finally, I would like to briefly touch on Southeast Asia. The Southeast Asian economy has not fully recovered from recession. But there are some symptoms reported of the recovery in the economic indexes in most of the Southeast Asian countries. Some power cable projects, which have been put on hold over the years, are now going to proceed and some tenders for new telecommunication projects have been announced. However, the size of the market in this region is still much smaller than others and the competition is just as tough.

Now before closing the session I thank the speakers for their interesting presentations and the audience for their attention. Thank you very much.