Thai Fiber Company[1]

James Taylor, Director of international business in the fiber division of the Commonwealth Chemical Group (CCG) in the UK, was considering the opportunity of getting involved in a joint venture with Mr. Chatri a Thai entrepreneur and textile magnate with the view of setting up a polyester fiber plant with a capacity of 20,000 tons per year for a total cost of 1.5 billion baht (43 million US dollars). He had to make up his mind quite rapidly in order to present his recommendations to the Board of the company in two weeks' time.

Commonwealth Chemical Group (CCG)

Commonwealth Chemical Group (CCG) was one of the largest chemical group in the UK, operating in various product lines (basic chemicals, fine chemicals, pharmaceuticals, textiles, agro-chemicals and fibers), as well as in many countries. Approximately half of the turnover of the group came from export and foreign subsidiaries implanted mainly in the Northern hemisphere and Latin America. The presence of the group in Asia was not materialised by major investments and, indeed, none of the investments were in textiles fibers.

The group was very loosely organised with a lot of autonomy given to the divisions which, in most cases, were separate legal corporate entities. The fiber division which produced raw materials for the textile industry (rayon, nylon, polyester), was facing serious difficulties in Europe due to fierce competition coming from Southeast and East Asia; in addition, products such as rayon were progressively substituted by other fibres. Restructuring of production obliged the division to close factories. The division had recently developed a new process of polymerisation, named the "continuous process" which offered the advantage over the "discontinuous process" of being less labour intensive and more productive in raw material consumption. As far as the international operations were concerned, the division was trying to sell its process in the form of turn key projects, technical agreements, services and licenses in association with one of its suppliers of spinning equipment

Origin of the Project

A few months earlier, the expatriate representative of the Barclays Bank, Jeremy Collins, met with a local Thai entrepreneur, Mr Chatri, who was considering the possibility of entering into a joint venture with a foreign partner to produce polyester

[1] *This mini case was written by Philippe Lasserre, on the basis of data gathered from researchin a real company. All names are disguised.*

fibers. Mr. Collins conducted a market survey and his conclusions were extremely positive. The key elements which emerged from the study were the following:

- The market was growing fast, doubling every five years since the Thai textile downstream industry was very active on the domestic and export markets

- Customers are spinning and weaving firms that buy synthetic materials and require that their suppliers maintain their machines and train their operators. (Substitution of man-made fibres for natural fibres necessitates slight adjustments in the speed of spinning and the tension exerted on the threads).

- Customers are very fragmented.

- There was only one producer of polyester fibre in Thailand, Teijin, a Japanese firm using the discontinuous process with domestic sales of 15,000 tons/year which covered only 70% of the domestic market needs.

- Labour in Thailand was abundant;

- In order to protect the local industry, the Thai government levies taxes on imports averaging 30 to 40%

- The Thai government looked favourably at non-Japanese investment and was ready to give a pioneer status to an investment in the upstream sectors. The pioneer status would imply a tax-free position for at least five years.

Collins convinced the British Trade Commissioner in Bangkok that it would be a good opportunity for a major British company to get a foothold in this very dynamic region.

Support from the British authorities would entail the granting of a guarantee from ECGD, the UK's Official Export Credit Agency which would allow the financing of British exported equipment at a preferential rate of 4%. Collins, through his office in London, approached Commonwealth Chemical Group (CCG) and the project arrived on Taylor's desk.

Project Definition

During several visits to Thailand, Taylor met with Chatri and his sons and was convinced that the Thai partners would not consider any other solution than a 49/49 joint venture, the rest of the ownership being in the hands of Thai minority partners. The joint venture company referred to as "Thai Fiber Company" (TFC) would be constituted for the manufacturing and marketing of polyester staples and threads, with a capacity of 20,000 tons per year (one third thread, two thirds staples). This plant would consist of two major parts: the polymerisation part with the CDF continuous process producing staples, and the spinning part with a British supplied equipment for the transformation of staples into thread. The raw material for this

plant , a petrochemical commodity, would be available easily on the international market and its supply would not raise any problem. The total investment would be approximately 1500 million baht[2] divided into 500 million equity, 700 million ECGD guaranteed export credit and 300 million debts at a commercial rate of **7%.**

The Chatri Group

Mr. Chatri, a Thai of Chinese origin, was one of the few textile magnates in Thailand. He was involved in weaving, spinning, knitting, dyeing and also some final products. He owned and controlled more than 15 companies, some of them with foreign partners. He controlled approximately 40% of the Thai market and was in contact with the Chinese diaspora in South East Asia, as well as with some PRC officials. Chatri could not speak English and managed his companies through various members of his family, keeping a very personalistic family type direct control over his empire. He had a 5% share in Teijin Thailand.

Other Considerations

While preparing his presentation to the Board, Taylor was very much aware that some aspects of the project presented some risks and opportunities. The profitability prospects seemed to be positive. So far the price of polyester staple in Thailand at 40 baht a kilo was higher by 30 to 40% than world-wide prices; this was due to the fact that the Thai government practiced an import substitution policy, seeking to protect domestic production from imports. With its modern equipment the TFC plant could possibly achieve world cost standards.

Furthermore, and in spite of the official reluctance of the group to enter into joint ventures, the Thai project presented the advantage of bringing a foothold in the Asian region. On the other hand, Thailand was known for its frequent "coups d'état" which could possibly result in a complete change of government policies.

Other question marks referred to the project itself. What would be the future attitude of Chatri in this venture? How to figure out what he really wanted out of this project? Would CCG be capable of setting up a new plant 10,000 km away from the mother company? What were the major risks? How to anticipate them? He knew that the Board would basically follow the course of action that he would recommend.

[2] 1 US dollar = 35 baht ; 1 £ = 60 baht