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# JAPAN'S LARGEST DIRECT INVESTMENT IN THE U.S. - A CASE HISTORY.



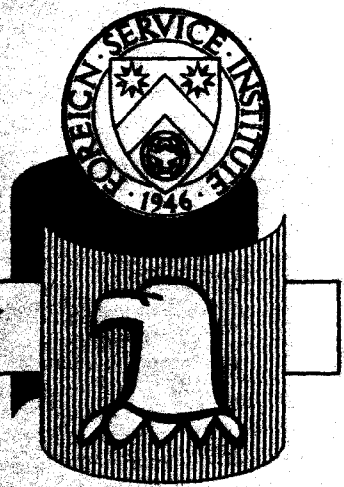
Case Study by FRITZ H. GIESECKE

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## SENIOR SEMINAR IN FOREIGN POLICY

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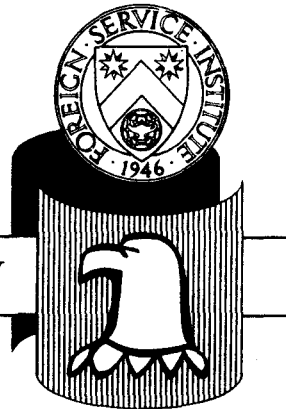
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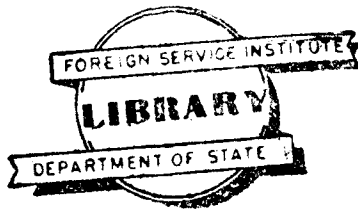


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JAPAN'S LARGEST DIRECT INVESTMENT IN THE UNITED STATES --  
A CASE HISTORY AND REVIEW OF RELATED ASPECTS AND TRENDS

PREFACE

This paper was prepared from information gathered in interviews and from materials collected on a trip which the writer made to California, Oregon, Alaska and Japan between March 24 and April 11, 1974. Other source material drawn upon is noted in the bibliography.

Two points need to be made: (a) the limitations of time and space did not permit an in-depth discussion and analysis of the complex subject of Japanese direct investment activity in the United States and third countries; and (b) the writer is a neophyte in matters concerning both Japan and Economics. Particularly in light of this latter point the writer expresses his sincere appreciation to the individuals consulted during this study for their patience and understanding.

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I. Introduction

CONTENTS

"Japan's foreign economic policy in the 1970s will have to be based upon positive action to establish....Rules of international investment to coordinate and harmonize the activities of multi-national enterprises and the interests of each national economy...."

--Japanese Prime Minister  
Kakuei Tanaka, in "Building a New  
Japan--A Plan for Remodeling the  
Japanese Archipelago,"  
The Simul Press, Tokyo, 1972

On January 30, 1974 two major American and Japanese corporations signed the final agreement establishing a Japanese-American equal partnership in a new multi-million dollar joint enterprise having world-wide economic interests and purposes.

With this agreement American Metal Climax, Inc. (known and designated hereinafter as AMAX) had completed the sale of 50% of its extensive aluminum business to one of Japan's largest trading firms, MITSUI and Co., Ltd. The sale price was \$125 million and represents Japan's largest single direct investment in the United States.

This major Japanese investment in a U.S. firm climaxed an approximately two-year period of rapidly rising Japanese direct investment activity in the U.S. This activity attracted high public interest, considerable media coverage and expressions of concern, and foreign investment-restricting legislative proposals by politicians at national and state levels.

This study seeks to describe the forces and circumstances which motivated this largest single Japanese-American joint economic venture. The study will also describe and examine the difficulties being encountered in the joint venture's expansion plans. It will include discussion of Japanese investment policy and activity, and reactions to that activity, in the U.S. Finally, the study will record some observations on U.S. economic policy relating to Japanese and other foreign investments in the U.S.

## II. Foreign Direct Investment in the United States

For the first time in recent United States history this country has been experiencing significant and visibly rising foreign investments. The U.S. has traditionally welcomed investments by foreign countries. Foreign capital helped the nation finance its early wars. It helped settle the American West with large investments in construction of railroads across the continent. But the increasing flow of foreign capital into our country today appears to be unsettling to a public not recently conscious of large scale foreign economic activity in the U.S.

Unofficial estimates put the increase in the cumulative total of foreign direct investment in the U.S. during 1973 at more than \$3 billion. This figure compares with \$708 million in 1972 and \$385 million in 1971.

The very designation given to this activity, "reverse investment," connotes that it is a reversal of international investment trends--as indeed it appears to be. The latest available official statistics (end 1972) indicate that the U.S. cumulative direct investment abroad was \$94 billion while comparable foreign investments in the U.S. totalled an estimated \$16 billion by the end of 1973. Since World War II Americans have been accustomed to extensive investment activity abroad by U.S. firms. While the total U.S. direct investment abroad still heavily outweighs foreign direct investment here, the apparent shift in trend has caused public interest and debate.

The immediate motivating factors for the upturn in foreign investment activity in the U.S. in 1972 and 1973 were two devaluations of the dollar combined with the upward revaluations of the Japanese yen, the West German mark, and other major currencies. The Japanese investment in the U.S., for example, increased by 40% in 1972 and 1973.

Concern about foreign investment in the U.S. has emanated mostly from certain geographic areas such as Alaska, Hawaii and the U.S. West Coast which have attracted particularly visible and heavy investments from Japan.

U.S. political and economic concerns about foreign investment center on the presumed impact of such investment on demand, employment or the effectiveness of U.S. domestic and international economic policies. Some U.S. businessmen fear foreign competition. This concern specifically includes moves by foreign firms into production in and for the U.S. market after their competitive position from abroad has weakened. There is concern about foreign purchases of U.S. natural resources including timber, minerals, recreational and farm land. Timber and other raw materials extraction has been a special issue in Alaska and the Pacific Northwest. In some cases there have been foreign "stock raids" on U.S. corporations, some of which were contested by alliances of management, stockholders and labor unions.

U.S. public and legislative concern about foreign investments has been expressed mainly in connection with Japanese investments. A recent increase in Japanese investment in real estate and banking



### III. Pattern of Japanese Foreign Investment

During the first two decades after World War II Japan's foreign exchange accumulations were needed to pay war reparations and to build up its working balances and foreign exchange reserves. Investments abroad were not indicated until the 1960s when Japanese industry had grown to the point where foreign sources of raw materials had to be developed and expanded. The growing economy and need for imports and exports caused Japan's foreign investments in the early and mid-1960s to concentrate on the development of trade and the securing of raw materials.

For most of the period since World War II the Japanese government had limited the types and amounts of overseas investments which Japanese firms were permitted to make. By mid-1971, however, rapid Japanese economic growth, productivity and exports had built up foreign exchange reserves to such a level (\$7.6 billion in mid-1971) and reserves were rising at such a rate that the government relaxed exchange controls and encouraged foreign investment. By February 1973 foreign exchange reserves had reached \$19 billion. Revaluations of the yen and devaluations of the dollar further stimulated Japanese investment in the U.S.

The close relationship between Japanese government and business, sometimes popularly described as "Japan, Incorporated," assures that the overseas ventures of Japanese business are in harmony with Japanese government programs for the short and long term development of the Japanese economy. In the 1960s the government encouraged investments in the U.S. to concentrate on raw materials extraction and on the commercial sector, mainly in the marketing of goods manufactured in Japan. These early raw materials investments included purchase and development of an Alaska timber and pulp enterprise which today is the largest lumber and pulp complex in that state. The years 1972 and 1973 witnessed an increasing rate of investment in the manufacturing and service sectors in the U.S. Much of Japan's investment activity was concentrated in the U.S. West where lower shipping costs to Japan played a role and where desired raw materials were to be found. With the move into manufacturing and service, however, Japanese investment has spread to all parts of the U.S.

The pattern of Japan's investment in the U.S. today shows that about one-half is in the manufacturing, real estate and natural resources industries. The other half of the investment is in the commercial and service sectors.

Encouragement to Japanese firms to invest in the U.S. has come from the U.S. Government. Vigorous investment promotion campaigns have been conducted since 1972. In May, 1973 an "Invest in U.S.A." Seminar was held in Tokyo which was attended by 500 Japanese businessmen and economic development representatives from 34 U.S. states. The Seminar was sponsored by the Department of Commerce and the National Association of State Development Agencies. This and similar programs are given substantial credit for encouraging Japanese businessmen to pursue investment opportunities in the U.S.

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Individual U.S. states, some of which maintain permanent development representatives in Tokyo, have been aggressive in cultivating Japanese business firms to invest in their states. Recent efforts by California, Montana, Texas, and South Carolina appear to have been particularly effective.

Until 1971 Japanese investors in natural resources extraction and production facilities in the U.S. preferred 100% equity ownership and this was the pattern. During the 1972 and 1973 upsurge in Japanese investments, however, there was an increasing number of joint ventures with American firms and takeovers of existing American firms.

IV. The Anatomy of a Joint Venture

The World Aluminum Industry--Background and Prelude

In the late 1960s and early 1970s there was a depressed world-wide aluminum market--a production overcapacity. Some governments (for example, Britain and West Germany) had promoted the construction of aluminum smelters without reference to world demand. Production volume rose during those years but profits were low. By 1972 the major aluminum producers had little capital or incentive to invest in new smelter capacity. Yet some market experts judged that by the mid-1970s the U.S. and world aluminum market would enter a period of rapidly increasing demand. These experts, including AMAX officials, believed that the time for expansion of capacity had come. The demand for aluminum in the free world is growing by 8% per year. The U.S. is already importing aluminum from abroad and requires expansion of domestic production.

Aluminum market experts predict that by 1976 world aluminum production capacities will be increasing a little over half as fast as consumption growth. Industry operating rates are expected to be at capacity. Excess metal inventories will not exist and prices will be rising. The AMAX Board Chairman has publicly maintained that there is need for at least a 50% expansion in primary aluminum production to meet free world demand through 1978. An aluminum smelter requires two to three years to construct and the timing factor is critical to take full advantage of a possibly cyclical market.

The raw material to produce aluminum--bauxite--is found mainly in tropical regions within 1000 miles north and south of the equator. Bauxite regions include Africa, South America, India, Indonesia and Northern Australia. In the view of American and Japanese aluminum industrialists these bauxite regions, except for Australia, are politically unstable and risky for capital investment. Recent actions by the Australian government have caused these officials to express some concern about the reliability of even that country as a bauxite source. For example, the Australian government recently rejected a bid by Reynolds Metals Co. to acquire majority ownership of a \$300 million alumina refinery in Western Australia. The decision apparently reflects a continuing effort by the Australian government to curb foreign capital incursions.

Aluminum production is an energy-intensive industry. Thus an assured source of electrical energy is one of the critical requirements for the location of a new plant. The energy requirement and shipping facilities often determine aluminum reduction plant location more than does the location of the raw material. The frequent pattern, therefore, is to refine bauxite into alumina, as the refined ore is known, at the mine site. The alumina is then shipped by bulk carrier to the plant site for "feeding" to the smelter.

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American Metal Climax Corporation--The American Partner

Known today by the acronym AMAX, this company has been multinational since its founding in 1887 by American, German and British co-venturers. Over the years it has been a world leader in the development, for metals production, of raw material sources in Africa, Latin and North America, Australia and other areas. Its markets have been mainly in Europe, North and South America and Asia. The corporation's board of directors includes British, French, Canadian and American nationals. In recent years the corporation has expanded and diversified to become one of the world's major multinationals, with extensive operations around the globe in aluminum, coal, copper, iron ore, lead, zinc, molybdenum, nickel and petroleum. AMAX sales in 1973 passed the \$1.3 billion mark and its capital expenditures have averaged \$110 million annually since 1967 with estimates up to \$150 million in each of the next five years.

While AMAX has not been one of the major producers of primary aluminum (ingot production), it ranks fourth in the processing of aluminum products in the U.S. where much of its aluminum business has been concentrated.

MITSUI and Co., Ltd.--The Japanese Partner

MITSUI is the oldest and one of the largest financial empires in Japanese history. The MITSUI organization traces its history back to 1673. It is one of the original Zaibatsu, the powerful and notorious, family dominated conglomerate trading and holding companies which have played so large a role in Japanese history--from financing Japan's earlier wars in Russia and China to generating the money and enterprises for support of the Japanese military effort in World War II. After that war American occupation authorities broke up the Zaibatsu. MITSUI and Co. was divided into 180 firms. Although the dissolution permanently broke the old family control of the Zaibatsu houses, the main trading companies had re-assembled by the mid-1950s. Today they are run by managers.

The Keiretsu, as these organizations are called today, are horizontal groups of companies which cooperate with each other. There is no holding company at the top which controls the various enterprises. MITSUI and Co. is itself both a trading company and a group of several companies cooperating with one another. These companies in turn cooperate with yet other companies bearing the MITSUI name. This cooperation is accomplished by interlocking directorates, corporate stock ownership, access to credit and marketing channels, and management ties through presidents clubs. The "MITSUI Group" includes ventures in nearly every aspect of Japan's domestic and international economic life.

MITSUI and Co.'s sales in the first half of 1973 topped \$10 billion as against AMAX sales of \$613 million in the same period. MITSUI and Co. is Japan's largest overseas investor. In April 1973 it had \$290 million in total investments overseas, spread among 165 affiliated companies in 36 countries. General Motors, by contrast, has 12 times that investment in its overseas activity (\$3.6 billion). MITSUI's versatility as a trading company is illustrated by the fact that in recent years it has handled exports well in excess of \$1 billion annually from the U.S. to foreign countries.

#### Genesis of Joint Venture--AMAX Seeks a Partner

Based on the anticipated long term increase in aluminum demand AMAX decided in 1970 to acquire a potential aluminum smelter site at Warrenton, Oregon from another company which had been unable to develop it. AMAX acquired the site together with an energy contract committing the Bonneville Power Administration (BPA), a federal agency, to deliver power for the smelter beginning in the mid-1970s. AMAX, however, did not have the capital to develop this smelter and at the same time expand into other desirable metals projects.

In the light of later developments it is interesting to interject here that one of BPA's chief motives in contracting to provide the energy for this plant was to boost the economically depressed Northwest corner of Oregon where the site is located.

AMAX's desire to seek capital for expansion was not limited to its interest in ingot production alone. Traditionally oriented toward long term resources development, AMAX had in the mid-1960s acquired rights to vast bauxite deposits in the Kimberly region of Western Australia. The deposits are estimated to exceed 300 million tons. Cost estimates to develop this resource range up to \$500 million. The alumina production from these deposits could supply not only the proposed Warrenton and other smelters in the U.S., but eventually also a gigantic industrial complex which the Western Australian government is promoting in the Pilbara area, west of the Kimberly region. Preliminary plans call for the Pilbara complex to include a 600,000 ton per annum aluminum smelter requiring 1.2 million tons of alumina per annum, a potentially most profitable customer for AMAX-produced alumina if the new deposits could be developed.

In addition to the Oregon smelter and Australian bauxite investment opportunities in its aluminum subsidiary, AMAX had developed overseas expansion opportunities in its other metals and ore businesses. It was not financially capable of exploiting all of these opportunities simultaneously. Tightening of credit and government regulations on foreign balance of payments of corporations had reduced AMAX's financial flexibility for making new overseas investments. Some of the opportunities would have to be passed up.

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The Warrenton smelter site was ideal. The all-important energy source was assured. Potential port facilities for unloading alumina were excellent. Adequate local labor appeared to be available. An alumina source had been assured by a long term contract with an ALCOA mine in Australia pending development of AMAX's own Kimberly deposits. Capital appeared to be the only requirement. A partner with money was needed. Other U.S. alumina companies had neither the capital nor, apparently, the vision to make such an investment. Foreign sources could be the answer.

In its metal and ore trading activity AMAX had been in contact with Japanese firms for as long as 60 years. There was an AMAX representative in Tokyo before World War II. By 1972 AMAX had established a corporate subsidiary in Tokyo as sales to Japan grew to the point where AMAX became one of the largest suppliers of raw materials to Japan. In developing the gigantic Mt. Newman (Australia) iron ore deposits beginning in the mid-sixties AMAX not only marketed most of the iron ore from this project to Japan but eventually brought Japanese firms, including MITSUI, into the venture as equity owners to help develop this vast resource.

AMAX has long been recognized for its know-how in putting together joint ventures, but the Mt. Newman project is an example of perhaps its greatest success. AMAX was sole original owner of this resource. In a period of less than 10 years it developed this resource into one of the world's largest and richest iron ore mines. The capital was developed by bringing Australian, British, and Japanese (including MITSUI) firms into the venture, with AMAX winding up with only a 25% minority interest.

With these and other successful experiences with Japanese firms in mind, the AMAX management decided in March 1973 to make an offer of equal partnership in its aluminum business to MITSUI and Co. Contributing to this decision were AMAX's assessment of Japan's financial capability in 1973 for large foreign investment and its problems in finding potential energy and real estate for aluminum production.

A top AMAX aluminum executive was dispatched to Tokyo to initiate discussions with AMAX's friends in MITSUI. The AMAX presentation was straightforward. World aluminum demand would be increasing. This was the time to expand. European and U.S. firms did not recognize the opportunities and did not have the capital to expand in any event. AMAX had the management, the technology, and a plant location with the energy and other requirements available. The AMAX proposal was for the MITSUI purchase of a 50% partnership in AMAX's entire integrated aluminum business which had sales of \$350 million and some 40 plants in nine different countries. A new corporation would be formed with equal representation on the board.

#### The Japanese Reaction and Motivations

The MITSUI reaction to the AMAX proposal was positive. Within three days the MITSUI executive committee had expressed approval in principle and authorized its management to proceed with discussions.

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What were the key factors that motivated MITSUI to make this decision?

The Japanese requirement and capability for primary aluminum production: Japan's current fiscal year (April 1974-March 1975) aluminum ingot requirement is 1.6 million tons of which 450,000 tons will be imported. Japan's ingot production is being expanded, but real estate shortages, high energy costs, and pollution factors will limit capacity to an ultimate maximum of two million tons per annum. By 1980 Japan's aluminum ingot requirement will be three million tons annually with a progressively increasing demand beyond that time. The one million ton import requirement by 1980 was thus a strong motivating force for MITSUI to expand its production facilities abroad. This motivation appears to be a classic example of vertical extension to reduce uncertainty in obtaining a raw material.

The long relationship between AMAX and MITSUI was also significant to the Japanese. MITSUI knew AMAX as a corporation with a good earning pattern and performance record, and there was mutual confidence between officials of the respective firms. MITSUI had respect and confidence in the AMAX management team.

The Japanese considered it an advantage to enter into a partnership with a known, reliable and versatile firm from a friendly country--particularly against the prospect of participating in longer term development of mineral resources in third countries. As a MITSUI official put it, "We used to pick up projects one by one, this time we decided on a total corporate relationship for all the assets as a whole." The opportunity to participate with AMAX in the development of the Kimberly bauxite reserve would help assure a long term raw materials source for Japan's own smelters and other Japanese owned smelters abroad. The prospects were also good for eventual profits and other possible advantages from the Kimberly and Pilbara projects over the next decades.

The Need for Price Stability: MITSUI officials noted that foreign firms imposed sharp price increases during the past two years when Japan had to import aluminum ingots. The AMAX-MITSUI joint venture helps make it possible for MITSUI to avoid being placed at the mercy of independent foreign firms in this regard.

The need for aluminum ingots to feed Japan's aluminum fabricating plants was a primary MITSUI motivation. The initial benefit will come to MITSUI from the Warrenton plant production, 50% of which may go to Japan. The Warrenton production is projected at 187,300 tons annually. MITSUI is also looking to the possible receipt of ingot production from two large existing smelters in which AMAX has ownership equity: INTALCO at Ferndale, Washington and ESTALCO near Frederick, Maryland. MITSUI officials stress that it is their intent as equal and responsible partners to strive for disposition of ingot production in accordance with economic considerations and the best business interests of the new joint venture company.

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AMAX has recently increased its equity share in ESTALCO to 50% and is to construct a new potline at that plant. This potline will add 87,000 tons per annum to AMAX's share for a total of 217,000 tons from both INTALCO and ESTALCO. (AMAX already receives one-half the INTALCO production of 260,000 tons per annum). Adding in the annual Warrenton capacity of 187,300 tons per annum, AMAX Aluminum would have a total of 404,300 tons. MITSUI thus may have a potential source of more than 200,000 tons of aluminum ingots per annum, or nearly one-half of Japan's current ingot import requirement.

Japan's need to develop new raw materials sources abroad to support its growing economy has often been met by formation of wholly Japanese-owned companies in foreign countries. Such companies have met opposition in local areas based on fears of Japanese economic domination and related factors. MITSUI now indicates a preference for a new pattern of joint ventures with reliable and cooperative foreign partners as in the AMAX case. This practice contributes to greater harmony in the local community. It also serves to form a multinational "united front" which spreads the risk and helps discourage adverse governmental actions, such as nationalization, in those areas where such dangers to foreign investment and development exist. The AMAX venture thus permits MITSUI and Japanese participation in a number of potential investments in developing third countries under the mantle of a well-known multinational company. Another important reason for association of several different countries in raw materials resource development is today's enormous costs for such ventures. This often requires the pooling of capital by a consortium of multinational corporations.

AMAX's plans for the construction of the Warrenton smelter include the application of the latest production and pollution control technology to make the plant the most efficient and pollution-free aluminum smelter in the world. MITSUI has a 70 year history of association with American firms for the purpose of acquiring technology. Its partnership with AMAX is likely to assure that advanced technology in ingot production and aluminum fabricating will flow to MITSUI and its associated companies in Japan.

A MITSUI preference for joint venture is seen in the fact that MITSUI will be providing some of the sales and trading skill in this partnership, but not the technical or management skill. MITSUI as an investor will thus gain a return from its handling of the trading operations for its part of the production. MITSUI would probably consider its ability to find outlets in markets in Japan and third countries as a real advantage in this partnership.

#### The Japanese Government Role and Interest

Japanese government approval for MITSUI's investment in AMAX was required. This approval was given in accordance with the Japanese government's priority economic goal of assuring reliable long term supplies of raw materials for Japanese industry from foreign sources. MITSUI's financing of the purchase of 50% of AMAX Aluminum was accomplished by loans from a Japanese government-administered foreign

exchange account, set up in 1972 in light of the then rapidly accumulating foreign exchange reserves. This loan system permitted Japanese overseas investors to borrow in dollars at low interest rates. The borrower was thus protected against fluctuating dollar-yen exchange rates. This was the system under which MITSUI acquired its funds for the AMAX investment.

The Japanese Export-Import Bank furnished 60% of the loan, with commercial banks providing the remaining 40%. MITSUI's \$125 million investment was made by a direct cash capital transfer from Japan to the U.S.

### The Negotiations and Agreements

In early April 1973, less than 10 days after the initial proposal, the MITSUI and AMAX boards had directed their respective managements to undertake serious negotiations. In August 1973 a Memorandum of Intent was signed which set the price at approximately \$125 million for one-half the AMAX aluminum business. The selling price included a premium of undisclosed amount above the book value of the AMAX aluminum subsidiary's assets. The agreement also provided that the new company would assume none of AMAX's long term debts. The Memorandum established the terms and mechanics for placing the aluminum assets of AMAX into an entirely new company. Shares were to be owned 50% by MITSUI and 50% by AMAX with equal Board representation.

MITSUI agreed that the entire existing management would be retained in place to carry on the business. MITSUI officials say this confirms their special confidence in AMAX management and is also in keeping with their general desire to leave day-to-day management of their overseas business interests in the hands of local managers wherever possible. The new joint enterprise, known as the AMAX Aluminum Company, was to have a ten-member board of directors, five each from MITSUI and AMAX. AMAX was to provide top management, president and executive vice-president.

After the Memorandum of Intent was signed MITSUI made an expeditious but thorough business analysis of the AMAX aluminum subsidiary. MITSUI also worked closely with concerned Japanese government agencies in processing required approvals. By the close of 1973 soaring oil prices had reduced Japan's foreign exchange reserves and Japanese government policy was shifting toward imposition of restrictions on foreign investments. But MITSUI was able to secure final Japanese government approvals and the necessary bank loans literally on the last business day of 1973, before new restrictions were placed in effect. Although the transaction was complex the negotiations were completed in record time and the sale was consummated on January 30, 1974. Shortly thereafter AMAX was able to advise the U.S. Treasury of a \$125 million boost in the U.S. balance of payments with Japan.

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AMAX and MITSUI officials indicate that there are no formal long term agreements regarding individual plant management, production quantities and distribution, markets, plans for future expansion and similar aspects of joint enterprise operation. There appears, however, to be an understanding between the two partners that MITSUI may dispose of 50% of the Warrenton's plant ingot production. In deciding whether to exercise this right MITSUI officials are quick to note that as owners of 50% of AMAX Aluminum they would be strongly influenced by their responsibilities for the business success and long term viability of the company. Recognizing that MITSUI and Co. operates on a global scale as a trading company, it is probably fair to assume that MITSUI will sell its share of the AMAX ingot production wherever the best tax and profit situation presents itself--with ingot production from other plants going to Japan if necessary.

MITSUI's willingness to leave management details to the American partner is manifested in the fact that the only permanent MITSUI representatives in AMAX are a vice-president and an assistant located at the AMAX Aluminum main office at San Mateo, California. MITSUI officials have described the function of these representatives as assuring the expeditious flow of information to and from MITSUI in Tokyo. Otherwise, consultations between top officials of the two partners are held in informal contacts and at board meetings.

AMAX and MITSUI officials appear to agree that since future business policy decisions are subject to agreement by the equal partners at the Board level in any case, detailed agreements at the inception are unnecessary.

A recent report indicates that Nippon Steel will buy five to ten percent of the AMAX Aluminum shares from MITSUI's 50% interest. Two other Japanese companies, MITSUI Aluminum and Mitsui Alumina, have apparently also agreed in principle to purchase some of MITSUI and Co.'s shares in AMAX Aluminum.

V. The Oregon Aluminum Plant

The Locale

Clatsop County, Oregon occupies the Northwest corner of the state. With a population of less than 30,000 it is a quiet, coastal area rich in history and natural beauty. The county is endowed with miles of spectacular coastline, sandy beaches, forested mountains and little pollution. The county's largest population center -- the Astoria-Warrenton area -- has been declining in population over the past few decades. The main traditional industries, fishing and lumbering, are on the decline and the region manifests other signs of economic decay: departure of youth for better job opportunities in the Willamette Valley, above average unemployment, an aging population, school underpopulation. Soon to depart permanently are a dozen top executives of the county's largest and oldest corporate headquarters-- a seafoods enterprise which is moving to San Francisco. The eventual closing of the corporation's remaining seafoods processing plant, largest in the county, is also predicted.

The county's economic life ebbs and flows according to variables such as the size of the annual fish run, the danger of forest fires, vagaries in the construction industry, or the amount of rainfall during the summer tourist season. Unemployment is chronic with severe seasonal ups and downs. An unstable and fluctuating area payroll is the result.

Clatsop County has long been considered by state and local leaders as an area needing economic rejuvenation. The state government has adopted a policy of encouraging dispersal of industry to areas such as Clatsop County, away from the growing and crowded Willamette Valley. Oregon's governor has led efforts to attract Japanese and other foreign investment to the state.

The Plant

The initial object of the AMAX-MITSUI capital expansion is a site near Warrenton, Oregon comprising 726 acres, of which 240 are cleared for the plant itself. Construction costs will range from \$130 to \$160 million. The plant will process 373,000 tons of alumina per year which will be brought from Australia by ships unloading at a new dock to be constructed.

The plant will employ nearly 800 persons. The company plans training programs in cooperation with schools and the local community college to maximize local recruitment of employees.

The company estimates that 500 supportive jobs will be generated in the area in addition to plant personnel. Annual plant payroll will be about \$11 million. Secondary payroll is estimated at \$4 million for a total direct and secondary payroll of about \$15 million.

The plant would add an estimated \$100 million of assessed value to the county's property tax roll.

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The plant construction period is estimated at two and one-half years, with 2000 construction workers employed during most of that time. Payroll during the entire construction period will be about \$21 million.

The Warrenton plant will have two potlines producing 187,300 tons of aluminum ingots per annum. The pots planned are a high-efficiency type with hoods for capturing fumes and gases and removing them for air pollution control purposes.

Beginning in 1976 the Bonneville Power Administration has contracted to deliver 240 megawatts of power, a figure representing about 7/10ths of 1% of the power resources of the Pacific Northwest Power Group at that time. The BPA has prepared a forecast of power supply indicating that, with the exception of one winter, there will be no shortage of power from January, 1976 onward.

### The Clatsop County Reaction

Clatsop County's reaction to the proposal to build the plant has been mixed. In 1973 AMAX conducted extensive public relations to explain and assess the impact of the multimillion dollar investment. A vigorous local environmental effort was organized to oppose the plant. No comprehensive and impartial scientific polling of the county's population has been made, but the population is probably evenly divided on the plant issue.

The opposition appears to be grouped about these main objections:

- a. Environmental: Here the concern is primarily potential damage to plant and animal life from fluoride emissions through the air. There are also concerns about secondary environmental effects upon the Columbia River estuary and other local waters from fluoride "fallout."
- b. Energy: Here the primary concern is political and economic, the objection being to the furnishing of low cost federal power to a private corporation in the face of government appeals to the public for power conservation. Ancillary to this objection is the opposition to the indirect "export" of low cost federal power to Japan via the plant's output. Governor McCall of Oregon, originally a supporter of the AMAX plant if it could meet State environmental standards, publicly reversed his stand and joined the opposition in October 1973 at the height of the energy crisis. The Governor indicated he could not ask the public to turn down thermostats and at the same time support a new private industry which would use large amounts of federal power. The Governor's reversal gave new vigor to groups working to stop the plant.
- c. The No-Growth Syndrome: Intertwined with environmental objections is the notion that any significant economic growth introduces disruptive and undesirable elements into an area as well endowed by nature as Clatsop County. Many residents strongly express the view: "We want to keep it like it is."

- d.. ~~Anti-Japanese Attitudes:~~ The Japanese partnership in
  - AMAX has been exploited by forces opposing the plant.
  - Attempts to stir latent anti-Japanese emotions have found
  - some resonance among young and old alike. Anti-Japanese attitudes have been observed in other U.S. areas where Japanese investments have occurred, particularly in Alaska, California and Hawaii. But residents of Clatsop County cite a unique local historical aspect in this connection: Imperial Japanese Navy Commander Meiji Tagami surfaced his submarine I-25 off the Oregon coast during the night of June 21, 1942 and fired 17 rounds into an area less than three miles from the present plant site. This was the first and only direct foreign bombardment of American mainland soil since the War of 1812.
- e. Economic Objections: Some established small businessmen fear the advent of possibly more efficient competition if economic growth occurs. Larger enterprises, such as canneries dependent upon inexpensive seasonal labor, are concerned about the availability of labor if the new plant comes in.

The opposition to the plant is being spearheaded by county environmental forces. Their latest action has been the filing of a lawsuit to enjoin the Bonneville Power Administration from furnishing power to the new plant until an environmental impact statement is filed.

The key environmental issue appears to be the potential air pollution from fluoride emissions. The Oregon State Department of Environmental Quality has set a standard for the plant of one pound of fluoride emission per ton of aluminum produced. No primary aluminum plant has ever met this standard. The AMAX planners expect to meet the standard, however, and they claim this would make Warrenton the cleanest primary aluminum plant in the world.

As soon as AMAX research has developed a pollution control system which can cut fluoride emission to one pound per ton of produced aluminum, the company will submit an application for a permit to begin plant construction. AMAX officials hope they will be able to submit such an application during June 1974. This will set in motion the procedure for hearings and final approval or denial for plant construction.

Using administrative and judicial blocking actions, the environmental movement's apparent strategy is to force indefinite postponements in plant construction in the hope that economics will eventually cause AMAX to abandon plans to build in Clatsop County. This strategy could succeed. The forces in the county favoring plant construction appear unorganized and passive. The lack of clear community support, the vagaries of the aluminum business, the contract commitment to accept Bonneville power at specified dates, and related economic developments could cause AMAX to seek other alternatives. The immediate AMAX goal is expansion of its aluminum ingot production. Early available alternatives to Warrenton might include expansion of AMAX's share in the plant at Ferndale, Washington.



VI. Trends in Japanese-U.S. Investment Practice

The AMAX-MITSUI joint enterprise is not typical of past Japanese investments in the U.S., but it appears to be an indicator of a future trend.

The AMAX-MITSUI partnership was formed with specific immediate focus upon expanded primary aluminum production. The partnership provided AMAX with the capital needed for this first investment opportunity and it provided MITSUI with desired expansion of its overseas industrial base. If the partnership succeeds there may be long term, world-wide multinational business activities beyond the immediate expansion phase. These longer term activities could include development of AMAX's Australian bauxite deposits, new aluminum smelters, expanded international trading in raw materials and fabricated aluminum, and perhaps joint Japanese-American exploration and development of new raw materials sources around the world. Such expansion would be facilitated by the fact that the merger with MITSUI not only brought in massive capital but also established new borrowing capacity of about \$200 million.

MITSUI officials have suggested that their primary immediate objective in this venture is not profits. Their interests appear to be longer range growth for raw materials production and natural resources acquisition. These apparent objectives are in line with the "grow now, profit later" motto that often characterizes Japanese business philosophy.

Japan's official foreign exchange reserves declined from a high of \$19 billion in early 1973 to less than \$12 billion by January 1974. In April 1974 the reserve balance stood at \$12.7 billion. This reserve decline prompted the Japanese government to tighten its regulations on foreign investment--purchase of stocks, real estate, tourist money, and other "non-essential" outflows have already been curbed. Most authorities agree, however, that Japan will continue major foreign investments for its priority long term raw material and other needs.

Japanese investment in the U.S. has already shifted away from speculative ventures in real estate, hotels and securities to more industrial investments in manufacturing and raw materials extraction. One current example of this trend is a new MITSUI Mining Co. effort to develop low sulfur coal fields in Montana. While the coal extraction contract itself is still being negotiated, MITSUI Mining has already signed an option with the Port of Astoria, Oregon for a bulk loading facility to ship this Montana coal to Japan.

Japanese investments in the U.S. are likely to continue with two main goals: (a) the protection and expansion of Japan's U.S. markets and (b) the securing of essential raw materials.

Several factors motivate an increase in Japanese manufacturing and service investments in the U.S.: increasing Japanese labor costs, appreciation of the yen versus the dollar, shortages and costs of real estate and energy in Japan, serious environmental problems

in Japan, fears of U.S. protectionist moves, sensitivity to opposition to raw materials extraction without local processing, need to service Japanese products. In short, earlier massive Japanese exports to the U.S. have led to direct investment in the U.S. in order to defend and expand the U.S. market--a classic evolution in international economics.

The high cost of labor in Japan, recently increased by a general round of wage boosts, is a particularly forceful motivation for manufacturing investments in the U.S. The Japanese government has made the decision not to import foreign labor because of population density and other factors. Foreign direct investment in manufacturing is considered a preferred solution.

Japanese government and industry are united in a vital and intense drive to establish secure, long term sources of raw materials. Long aware of their vulnerability in this regard the Japanese were nevertheless severely jolted by the recent Arab oil embargo. A renewed drive is on for secure, diversified sources of raw materials. The U.S. is considered the most politically stable of all foreign sources. It is thus a key target and Japanese raw materials investment efforts here may be expected to increase.

In reviewing recent Japanese investment activity it is possible to identify revised investment and business techniques, some already manifested in the AMAX case, which Japanese firms may increasingly apply in the U.S. Some of these practices may be:

- a. Fewer instances of 100% Japanese ownership, more equity sharing with U.S. firms.
- b. More processing of raw materials at the location of origin to make Japanese business activity more acceptable in local communities.
- c. Filling local managerial positions with U.S. nationals and more adaptation to local business customs, again to harmonize better with the local community. Japanese businessmen have shown unusual sensitivity on these issues and have manifested immediate willingness to adapt in most instances where they have become aware of problems.
- d. Increased borrowing from U.S. banks for capital investments rather than capital transfers from Japan. Japan now promises to become one of the most active borrowers in the international money market. The Japanese government has begun to encourage foreign borrowing. Japanese participation in joint ventures is an aid in obtaining bank loans--another inducement for AMAX-like enterprises.
- e. More joint ventures with U.S. firms, as in the AMAX case, not only for investments in the U.S. but for third country raw materials and manufacturing operations. A current example is the proposed Japanese development of natural gas resources in Siberia with American participation.

VII. U.S. Economic Policy and Japanese Investments.

Japanese investment activity in the U.S. has given rise to pressures for new restrictions on foreign investments. As indicated, however, in the International Economic Report of the President, February 1974, the administration has concluded that "there is no sound evidence or national security ground for additional restrictions at this time." The U.S. domestic economic significance of Japanese investment appears to have been exaggerated by the media and in the public mind. The relatively small size of Japanese investment in the U.S. compared with other foreign investment and the total domestic investment does not appear to warrant the sometimes sensational media reporting on this topic. "Japanese Industry Invades U.S.," a recent headline in a major U.S. daily, is not atypical of the flavor of reporting on this subject. The liberalization of international investment is a cornerstone of U.S. economic policy and it is not likely that recent efforts to legislate investment restrictions will succeed. Administration policy may be expected to continue promotion of such investment for the capital inflow it generates and, more importantly, for the job creating potential.

Data is not readily available in U.S. records from which to derive current statistics on the pattern or amount of Japanese or other foreign investment in the U.S. No reporting or collection system from U.S. sources exists for adequate assembly of such information. Some argue that a federal requirement for registration of foreign investment is the first step toward control, but it does appear that in this age of growing international economic interdependence a precise and current knowledge of foreign investments in our country is desirable and not inconsistent with an open investment policy.

While Japanese restrictions on U.S. investments in Japan were liberalized in 1973, U.S. investors are still not accorded treatment equal to domestic Japanese investors. Japanese economic policy makers should become more sensitive to the U.S. desire for liberalized U.S. direct investment in Japan as Japan increases and diversifies its own direct investments in the open U.S. market. There are indications that the Japanese government is moving, however gradually, toward a free investment economy.

Adequate monitoring of Japanese and other investment activity should be maintained to identify oligopolistic practices. In Alaska, for example, aggressive long term Japanese investment and export activity, and a concomitant lack of competitive investment and other business activity by American firms from the "lower 48," have produced some indications of Japanese monopoly. While facts are not sufficiently available to show beneficial ownership in all of Alaska's industries, Japanese interests appear to own a major share of the timber industry and, at least through exports, also influence a major part of the fishing industry. The apparent lack of competition for these Japanese business activities is of sufficient concern to suggest that data be collected to establish the facts and, if the facts warrant it, to consider remedial measures including encouragement to other potential investors in that state.

California, Hawaii and Alaska are among the States where legislation has been introduced to restrict foreign investments. This legislation has been directed mainly at Japanese investments. As Japanese direct investment moves into other U.S. regions more state attempts at such legislation may be expected. Although the constitutionality of such legislation is in doubt, there appears to be a need for better defined federal policy toward such state attempts at legislation.

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VIII. Conclusion

The AMAX-MITSUI joint enterprise is a manifestation of the accelerating internationalization of business activity in a profound and rapidly growing world-wide economic interdependence. In more specific terms, the enterprise is evidence of the advanced state which Japan's phenomenal economic growth of the last decade has attained. It is an example of a sophisticated economic technique which flowed naturally from economic factors confronting both the Japanese and American firms.

Although there are predictions of a slowdown in Japan's economic growth and of an investment reorientation toward domestic socio-economic programs, Japan's economic dynamism abroad is likely to undergo only a momentary pause en route to international economic equality with the U.S. Indeed, it has been suggested that on a world-wide basis Japanese investment activity in manufacturing and resource development will accelerate, particularly in joint ventures with borrowed Arab money.

The underlying force behind Japanese direct investment has been the growing internationalization of economic activities. Just as Japanese activities in the U.S. began with trade in commodities and then moved to direct investment, they will more and more turn to local production and migration of whole enterprises to the U.S. The ultimate result of this process, assuming continuing existence of free international investment economies, would be an optimizing world production through division of labor.

In his recently published book, MITSUI (Weatherhill, 1973), John G. Roberts suggests that Japan's leaders may well have considered their capitulation to the Allies in 1945 as only a truce in an unfinished war for international equality that had begun with the treaties forced on Japan by Commodore Perry ninety years before.

The history of Japanese-American relations will have come full circle if Japan can achieve this equality through successful global economic competition in partnership with the country that first sent Commodore Perry to her shores.

APPENDIX  
Persons Consulted

U.S. officials in several executive departments and agencies were consulted in the preparation of this study. The following is a listing of other individuals who were consulted.

Herbert Clough, Vice President, AMAX Aluminum Co.,  
San Mateo, California

Donald Dickey, President, Alaska Chamber of Commerce, Juneau, Alaska

William A. Egan, Governor of Alaska, Juneau, Alaska

Richard H. Eakins, Director, Department of Economic Development,  
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J. W. Forrester, Jr., Editor, Daily Astorian, Astoria, Oregon

George R. Grove, General Manager, Port of Astoria, Astoria, Oregon

Shigeru Harada, Minister-Counselor for Economic Affairs,  
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Steve H. Hasegawa, Vice President, National Bank of Alaska,  
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Ed Huizer, Deputy Commissioner, Alaska Department of Fish and Game,  
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Saburo Nishida, Manager, Marine Transportation, AMAX Aluminum Co.,  
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Masanao Nishikata, Consul of Japan, Anchorage, Alaska

Erling Orwick, Vice President and Manager, First National Bank  
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Wilson K. Ray, President, ALCOA Japan Limited, Tokyo, Japan

Robert R. Richards, Vice President and Economist, National Bank  
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Irene E. Ryan, Commissioner, Department of Economic Development,  
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Takeshi Saito, Executive Managing Director, MITSUI & Co., Ltd.,  
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Harold Snow, City Attorney, Warrenton, Oregon

Sumio Takahashi, General Manager, Light Metals Department,  
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Kazuo Tanaka, Senior Vice President, AMAX Aluminum Co.,  
San Mateo, California

John R. Werner, Special Assistant, Office of the Governor,  
Anchorage, Alaska

Wendell Wyatt, U.S. Representative, First District, Oregon

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