# Foreign competition prods Mitsubishi, Hitachi to merge

The Associated Press

TOKYO, Nov. 30 (Kyodo) — The move by Mitsubishi Heavy Industries Ltd. and Hitachi Ltd. to merge their non-nuclear thermal power businesses, announced Thursday, comes as the firms face increasing competition from foreign rivals for orders in the domestic market.

The nuclear crisis at Tokyo Electric Power Co.'s Fukushima Daiichi power plant in March 2011 has generated momentum for reforms in the utility industry, changing the landscape of the domestic market for power systems that the two companies and other major players had for years dominated.

Amid growing calls for a shift away from nuclear power in Japan, the Mitsubishi-Hitachi tie-up could also induce reorganizations involving not just the two Japanese heavyweights as well as others, although Mitsubishi Heavy has ruled out the possibility of a full merger with Hitachi immediately.

"This is the most powerful combination," Hitachi President Hiroaki Nakaniashi told a news conference on Thursday, acknowledging the significance of the forging of an alliance between former rivals.

The new company to be created through the merger on Jan. 1, 2014, is expected to be controlled 65 percent by Mitsubishi Heavy and the remainder by Hitachi.

It will boast sales of about 1.1 trillion yen ($13.75 billion), making it one of the largest players in the world market for power generation systems, though they would not be on a par with global behemoths such as Germany's Siemens AG with 2.9 trillion yen in power system sales and General Electric Co. of the United States with 2.5 trillion yen in turnover.

The two Japanese companies will be integrating their operations for gas turbines, generators and other fossil-fuel thermal power systems, as well as geothermal power systems and fuel batteries.

Mitsubishi Heavy President Hideaki Omiya said, "We would like to make it a thermal power system company that leads the global market."

The new company is also eyeing demand from outside Japan, including emerging economies.

But competition is intensifying in the domestic market where the two companies used to maintain edges.

At the Yoshinoura power plant of Okinawa Electric Power Co., which started operating its No. 1 generator on Tuesday, Germany's Siemens delivered a gas turbine for the domestic industry's most advanced thermal power generation system fired by liquefied natural gas.

In a competitive bid for equipment at Nishinagoya power plant of Chubu Electric Power Co., General Electric joined forces with Toshiba Corp. to outbid Mitsubishi Heavy.

Behind the entries of these foreign companies are reform initiatives undertaken for the power industry after the Fukushima crisis.

Since September, the Ministry of Economy, Trade and Industry has been requiring major power utilities to hold competitive bids that include new entrants when they build or renovate fossil-fuel thermal power plants.

The change was effected in the face of criticism that utility companies generally have not been cost conscious because of their tariff setting mechanism that is allowed to leniently assess costs.

Domestic utility companies have also come under pressures to cut costs as they seek to hike electricity charges to cover the fuel bill for running non-nuclear power plants while most of their atomic reactors remain suspended after the crisis.

It does not appear power generator makers can any longer expect orders through single tendering whereby a supplier is picked through a noncompetitive procedure.

An official at a foreign manufacturer said, "We didn't even have a chance to make proposals for products before but recently we sense an environment conducive to doing business."

Mitsubishi Heavy and Hitachi are said to have once discussed a full-scale merger in August last year. While Hitachi was keen on the move, Mitsubishi Heavy was rather reluctant. The idea was eventually dropped.

"Former and current presidents and other top management officials (at Mitsubishi Heavy) were alarmed that the company would be swallowed by Hitachi," said an industry source.

At a news conference on Thursday, Mitsubishi Heavy President Omiya said, "It will not lead to a comprehensive integration." But he fell short of ruling out an integration of nuclear power business.

Asked about the possibility of integrating their divisions for nuclear power generation systems, Omiya said, "We would like to discuss it when we clearly determine an outlook of rebooting domestic nuclear reactors."

In the nuclear power system business, the two companies have different foreign partners. Hitachi is working together with General Electric while Mitsubishi Heavy is collaborating with France's Areva SA.

The Mitsubishi Heavy chief suggested the latest move by the two companies might trigger a reorganization that would also involve Toshiba and other major manufacturers.

"The Japanese market will continue to experience severe conditions for a long period of time. If we join together, however, it could work to our advantage," President Omiya said.