



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

AUGUST 2003

Dear Colleague:

The Fog of Recession is beginning to lift! ... clear signs of a protracted bounce back to normalcy and a sustained economic recovery in the Plastics Industry are beginning to emerge. While the second quarter opened inauspiciously with the U.S. and U.K. at war, spring saw the end of major combat as well as the abatement of the SARS epidemic threat. Demand for some goods and services improved, giving some companies a chance to raise prices. This resulted in improved profit margins, and with the decline in the U.S. dollar global trade surged. Investment activities by businesses are beginning to ameliorate. The most optimistic viewpoint in three years is being expressed at this juncture, holding out prospects for a robust 2004, perhaps showing up in 4Q 2003 numbers.

Acquisitions have shown an up-tick in activity with the whiff of optimism about global economies in the air, and mergers are following (see related story on page 3 of this issue) – Europe and Asia seem to be most active. Manufacturing holds the most interest, what with overcapacity driving many markets, but integrated distribution seems to hold a great deal of interest as we saw last month with Lucite International’s move forward. Small industrial suppliers especially will be pressured to build economies of scale as matching low prices from China becomes an imperative for survival.

There are more reasons for optimism about the economic outlook, supporting a forecast for a 3.5% pace of growth in the second half of 2003 and a 4% gain in 2004. Manufacturing is showing strength earlier than expected ... two straight months of gains for the first time since last summer.

Interest rates are heading up as fears of deflation... well, deflate. The dollar will stay weak into early next year, perhaps \$1.19 to the Euro and \$1.68 to the British pound, helping U.S. exports. Sales in Europe will be stymied until 2004, when Europe recovers from its economic doldrums and can take advantage of cheaper U.S. plastic products.

The influence of Asian markets and their participants cannot be overemphasized in this economy. We would not be surprised to see their entry into U.S. Distribution as a means to enhance market share with both manufacturing and integrated distribution. With the advent of European ownership of distribution that we have seen over the last decade or two, participation of Asian manufacturers seems to be an idea whose time has come. In view of some consolidation that seems to be due in the distribution sector, manufacturing is already exhibiting signs of continuing this trend.

TRENDS: Some results are in from Industrial Distributors such as Grainger, MSC, Kaman etc- for 2Q 2003 both sales and earnings are up single digits. Distribution industry indices such as PMI, Productivity, as well as NAICS 4226 (Chemicals & Allied Products) also show slight improvements, paving the way to upward trends for the balance of 2003.

About US \$44billion will be spent on homeland security next year in the U.S., allowing both large and small companies to profit from procurement of security-oriented hardware. Inspection and surveillance tools as well as specialized security grade plastic sheet such as Lexgard® and its equivalents – look for strong sales of these products in 2004.

A budding sales trend in upcoming years is Bioplastics – simply stated this is converting plastic resin from sugar (no oil here!) by genetically engineering organisms to produce essential building blocks of plastic pellets. Pioneered by Cargill Dow, with its polylactic acid (PLA), which is producing resin for packaging, heretofore using PET and polyester - traditional petroplastics. Now DuPont has joined the fray, partnering with Metabolix to produce polyhydroxyalkanoates (PHA). Watch for this emerging technology to revolutionize our pricing and biodegradable models in future generations.

ETP's grew in western Europe beginning late last year and continuing into 2003, after two down years, led by PC, PBT, nylon and acetal with single digit rates of growth – expected to continue into 2005. A sobering fact typified by the run up in natural gas prices, (not expected to abate until well into 2004), is that many of the ETP's are dependent on natural gas. Inflationary pressures could hamper continuing growth. For a forward look into this correlation, visit the US Department of Energy website at: [www.energy.gov](http://www.energy.gov) and then click on energy information administration. Other sources for forecasting are: [www.polymerplace.com](http://www.polymerplace.com) and [www.polymertrack.com](http://www.polymertrack.com) .

Since the last three years have produced the severest slump in our plastics industry in over twenty years, we suggest looking back to the seventies for wisdom and strategy and a preview of how we are beginning to emerge – most importantly how to plan for the next cycle. Important to find the people who lived through the 70's slump and be guided by experience.

PRICING: Prices slip on weak demand for PE, PP, PVC, as prices continued to drop on these resins in June and July, as processors worked off inventories and producers coped with weak demand. PE feedstock, heavily dependent on natural gas, is still exerting upward pressures and we would not be surprised to see increases of 2 cents per pound re-instated in 3Q 2003, especially in PE, PP and PVC. Housing and automotive drive these prices and these markets have some upward momentum going into 2004.

Meanwhile, nylon extrusion grade prices are up 5-10% and other ETP's should follow in 4Q 2003 and into 2004, especially driven by natural gas inflation.

The total US market for all plastic resins is estimated at 46 million tons with PE representing 30% of that total, followed by PP and PVC at 15% each. Of the ETP's , nylon represents 1%.

Pricing trends are definitely to be upward in 2004, on all resins and shapes.

DISTRIBUTOR/MANUFACTURER BRIEFS: Bayer Polymers introduces three new grades of Makrofol® PC film, all exhibiting varying degrees of gloss for specific applications. When will this product line be more widely distributed? Is exclusive distribution relevant in this market?

Laird Group Ltd announces six month results for its Laird Plastics subsidiary in the U.S. – sales up 4% versus same period in 2002, to US\$ 110. Profits for the same period rose 20% to US\$3.0; these being estimates based on exchange rates and attributable to realigning branch locations as well as emphasis on national accounts.

Spartech Plastics introduces four new sheet structures including multilayer sheet with enhanced oxygen barriers; TPO sheet with high gloss capstock suitable for thermoforming; a monolayer modified acrylic sheet offering superior hardness for thermoformed signage; and high heat monolayer copolyester for displays in a “PETG-like” material. When will Spartech recognize distribution, or will it take a merger or acquisition to accomplish this?

Among the three winners of the worldwide best ideas contest conducted by ThyssenKrupp, is their AIN Plastics, Michigan unit – for their “Geographical Expansion” project.

Penn Fiber Plastics, an Ensinger Company announces the immediate availability of the new thermoformable Delrin acetal in sheet and strip (up to .250 inches thick and 48 inches wide) – designated Delrin Forming Solutions® by DuPont, introduced in June at NPE and reported by us in our July 2003 issue. Freetech Plastics in California was the first thermoformer to process this innovative material, opening up markets for stock shape fabricators, heretofore only available to the molding segment of our industry.

Kleerex Group, UK, has selected Spectar copolyester from Eastman Chemical to produce display cases for use in frozen food sections of supermarkets, and replacing metal.

EGR Group, Brisbane Australia, one of that country’s top fabricators and thermoformers as well as extruders of acrylic sheet, reports sales of AUS\$120 in this, its 30<sup>th</sup> anniversary year.

IAPD launches on-line fabrication search – available at its website www.theiapdmagazine.com and serves as a resource for companies seeking plastic distributors that perform various fabrication processes.

Modern Plastics, Bridgeport, Connecticut formed a Medical Plastics Division that is ISO 9001:2000 certified for materials and fabrication it offer for medical grade plastic products, approved by major medical industry customers worldwide – an exemplary example of value-added, niche serving innovations.

Modern Plastics also recently hosted and sponsored its 1<sup>st</sup> annual Juvenile Diabetes Research Foundation Charity Golf Tournament. Held in Orange, CT on July 25, 2003, participants numbered almost 100 golfers from the distribution, manufacturing and end-user sides of our industry, raising over \$5000 for this good cause. This continued a long standing tradition of charitable participation started by Commercial Plastics many years ago, discontinued by GEPS and reinstated by Modern.

**MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS:** PT Impack Pratama, an Indonesian manufacturer of PC sheet and owners of Mulford Plastics Pty, Australia and New Zealand distributors, are purported to be negotiating with GEPS to acquire their interests in those two countries – no confirmation yet by either party but the likelihood exists.

Robert Horne, owners of Cox Plastics in the UK, are being sold to a large Australian paper group.

Barlo Group’s management considers an MBO of this Irish based sheet manufacturer that reported profits of E9.1 million this year, with more than half its acrylic sheet capacity moved to Czech Republic, Slovakia and eastern Germany this year.

Ticono JV breaks ground for acetal plant in China, with its partners Polyplastics, Mitsubishi and Korea Engineering – located in Jiangsu province.

Bayer Polymers acquires remaining shares of Makroform GmbH, PC sheet producer formed by the merger of Access, Carbolux and Rohm’s PC sheet businesses. The new entity will be called Bayer Polymers Sheet Division and will serve the EMEA geographical region, with Palram, Barlo and GE remaining as competitors.

Aristech Acrylics LLC, a unit of Mitsubishi, acquires assets of Avonite, Inc., a leading producer of polyester solid surface sheet complementing Aristech’s acrylic sheet line to serve the thermoformable product offerings for the sanitary ware market.

GE Plastics is expanding its activities in Russia, especially with a view to further participation in the PC sheet market, which is growing in that region.

**PEOPLE:** Aristech Acrylics appoints David Knowles as CEO and President, with Kevin Alleman becoming COO. Laird Plastics hires Gary King, formerly of Westlake Plastics, as Branch Manager in Philadelphia. Sam Brock of Kleerdex, passes away in Aiken, SC.

GE Plastics global management team consists of Golnar Motaharipour, President, GE Plastics Europe and Len Kosar, President, GE Plastics Pacific.

**INDUSTRY INTERVIEWS:** Note: Industry Interviews is on vacation this month. Instead we offer a series of recent quotes by industry leaders:

“ Business is flat as far as I am concerned. You develop a few new accounts and then lose a few accounts due to price. Customers are running scared ... we just lost an account that we had serviced for 19 years, due to a lower price that was measured in pennies. No consideration is given from purchasing departments for services or relationships as far as I am concerned. There is too much pressure to lower cost of goods sold through price cuts. As far as the future goes, I am not too optimistic – we are seeing the migration of our manufacturing customers to sources in Mexico and China. Logistic systems are getting good enough that the fear of far away suppliers is diminishing.”

– CEO of a major Midwest Distributor/Fabricator.

“ You pick up a certain sense of confidence about the future as you tour the NPE show floor. In fact, more than 72% of those attendees we surveyed think their business outlook will improve over the next year. But if anyone thinks they can simply rely on a rising economic tide, they need to think twice. Growth these days requires innovation and innovative thinking, hard work and collaboration throughout the value chain. When we asked NPE attendees to rank the new material attributes they needed most, beyond cost, the priorities were: 1) improved functional aesthetics, 2) resistance to extreme environments, 3) structural properties, and 4) toughness. Today we are announcing six products to meet these needs!”

- Terry Caloghris, Vice President and General Manager, DuPont Engineering Polymers.

“ As far as shapes go, GE also runs a business called GE Supply, where we have been in the electrical distribution for years. So we have some competency in that area. Forty percent of our shapes business is in polycarbonate products and we have millions and millions invested in polycarbonate around the world. We want to know who our customers are so we can launch the right new products and devote plants as quickly as possible. We're able to control our own destiny in that respect.”

– John Krenicki, CEO and President, GE Plastics.

*Information contained in this newsletter has been taken from trade and statistical sources that we consider reliable but we cannot assure its accuracy or completeness. Any opinions expressed reflect our judgement as of this date and are subject to change.*

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