



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

AUGUST 2005

Dear Colleague:

Inevitable inertial inflation...yes that old business nemesis, *inflation*, is rearing its persistent head, threatening to put pressure on an otherwise optimistic scenario for most global economies. Yes, some clouds loom on the horizon...the prospect of higher interest rates; ongoing uncertainty for sustained high energy prices and the specter of inflation.

These factors all will trim growth that is burgeoning as corporate earnings remain strong and businesses see growth ahead with capital spending likely to continue expanding.

Come 2006, look for some economies to fade as long term interest rates eventually climb from record lows and businesses become more frugal... high energy costs and slowing productivity gains curb profit growth and capital investment. Inflation is here in the form of resin and therefore shapes prices which now amount to double digit increases, year over year. Other business expenses have been silently creeping up led by record oil prices, followed by the psychological effect of the stampeding “pass it on” mentality.

Not to be ignored is China’s moderate, token devaluation of its Yuan – that effect is yet to be seen. The U.S. Dollar’s value against most Asian currencies will head down, while it will remain strong versus the Euro. A continuing devaluation of the Yuan could lead to more industrial production in the rest the globe as Chinese exports rise in price. Additionally, China may cut back on its purchases of U.S. dollars, thereby raising interest rates, helping manufacturers by raising their competitors costs. America would have more industrial workers and less real estate agents, more jobs in Michigan and fewer in Florida. Right now America is a superpower living on credit, with China providing the credit card – what will happen if and when China takes away the card?

TRENDS: Home Depot is actively pursuing vertical distribution acquisition opportunities – most recently National Waterworks Holdings at a price of US\$1.35 billion, thus entering the MRO market for water and wastewater products thru their growing distribution channels. We do not know of any activity in plastic shapes distribution, but it would seem to fit their strategic plans.

Meanwhile over at eBay, their on line auction site's Manufacturing category is now responsible for selling **186** raw materials *per day*, which include aluminum, brass, steel, lumber and plastic!
Wise for many in our industry to look at this growing channel of distribution to see if it fits your tactical plans for this decade - another trend that bears watching, especially as a means to dispose of excess inventory. It will be interesting to chart the types of buyers participating.

Some economic trends resulting from June 2005 indices show:

- Purchasing Managers Index up from 51.4 in May to 53.8 in June
- Durable Goods Orders up 5.5% from May vs 1.5% increase April to May
- Industrial Production at 119.7% (1997 = 100)
- Productivity 2.9% vs 2.3% (1Q 2005 vs 4Q 2004)

U.S. Fluoropolymer demand to grow at 5.7% per year, to reach US\$2 billion by 2009. FEP showing strongest gains (7.2%/yr), with PVDF just behind at 6.2% - all this according to Freedonia Group which just issued its study.

It is always interesting to chart some futuristic thinking on the part of GE Plastics as a window to some of their newest products-to-be and/or innovative distribution strategies. (see story on AmeriLux that follows in DISTRIBUTOR/MANUFACTURER BRIEFS section.) Currently they are engaged in “imaginative problem solving” – encouraging their people to think “what if?” to drive growth. A new corporate entity is the creation of an “innovation champion” who brought in creativity consultants, futurists and design gurus. (For a list of GE’s newest futuristic “buzz words”, email us at: buzzwords@globalplasticsletter.com).

PVC demand in China continues to grow, with imports at record levels. However, in the next 4-5 years, China is expected to be a net exporter of PVC with much new capacity scheduled to go on stream. Many manufacturers are adding plants to produce MMA as well as PVC.

In some final notes regarding trends for this month’s issue, we once again suggest a new look at Reverse Auctions. In a recent NAW report, 32% of industrial distributors surveyed, engaged in reverse auctions last year, up from 18% in prior year – those most likely to participate are those with \$20 million or more in annual sales, and tended to bid once every six months. Electronic paper is coming – plastic film that contains electronic ink that is as easy to read as ink on paper. The applications in mobile phones and other small devices are growing.

Phillips’ Polymer Vision and E Ink are companies leading the way.

Finally, we look at the fax machine which was a hot trend in the 70’s when predictions were for sales in the U.S. of about 600,000 machines. By 1989 when sales reached their peak, there were almost 4 million fax machines in use in the U.S. Technology has changed with the advent of email yet the fax is still a part of today’s business communications having had a very fast rise and fall but it persists. Hard to forecast trends!

PRICING: The impact of rising resin costs affects both manufacturers and distributors alike – our industry becomes less competitive versus traditional materials such as wood, metals and concrete.

Most unfortunately, the run-up in prices occurred just as we were seeing an influx of new opportunities stemming from the price explosion of traditional materials. In fact, as of this writing in early August 2005, Copper just hit record high prices at US\$1.663 per pound. Our industry needs resin price stability and a mitigation of current levels to continue to assault new markets and applications. Fortunately as of mid-June, we saw price rollbacks on PE, PP, PVC, PET and PS. Whether that trend will continue, as well as extend to EPM’s and HPM’s is unclear at this point, given the steady rise in oil prices – now at record levels and destined to remain so.

DISTRIBUTOR/MANUFACTURER BRIEFS: Mitsubishi Rayon starts new subsidiary in China to produce MMA sheet in Nantong- 20,000 tons per year is announced capacity, costing \$35 mio.
Gevacril is newest manufacturer of cast acrylic tubing—said to be competitive with extruded tube.
Ticona ends distribution relationship with GE Plastic’s Polymerland and retains Entec and Channel Prime Alliance – this realignment affects Celcon®, Fortron® and all other of its resins.
Newest distributor for GE Lexan® sheet is AmeriLux International LLC of Appleton, Wisconsin.
Will mainly handle multiwall and corrugated sheet products for architectural and greenhouse markets and applications in North America.
DuPont continues to work with government agencies investigating the health effects of perfluorooctanoic acid or PFOA, a component of Teflon® resin used throughout our industry.
Lucite International announces its first MMA monomer plant to open in Singapore in 2007, as well as a jv with Mitsubishi Rayon of Japan, which includes this newest plant as well as in Texas.

Laird Plastics adopts regional pricing system to stay aggressive – states the headline in the July 10, 2005 issue of Modern Distribution Management (www.mdm.com). In an unusual revelation contained in a case study for Price for Success, an NAW publication, this insiders look at how this major semi-finished plastic shapes distributor, ranked # 3 on the globe, is contending with this age-old dilemma. Serving over 25,000 customers, via its 500 employees, including 250 outside and inside sales people, Laird uses an ERP system and historically had used a centralized cost-plus pricing model. Now with software tools integrated into its system, costs are hidden but selling prices reflect regional market differences – and margins have risen while staying competitive. Much more detail on this is available at the above website. Also see INDUSTRY INTERVIEWS that follows with more on Laird Plastics, who have announced they are keeping their name, despite new ownership.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Stabilit Europa, subsidiary of Mexico’s Grupo Imsa has invested EUR 6 million in a new site for production of translucent sheet near Barcelona, Spain.

The Bakelite trade name for phenolic resins has ceased to exist and will henceforth be known as Hexion, reflecting its new owners name.

Gallina USA LLC, subsidiary of an Italian maker of PC sheet (Dott.Gallina srl) begins production in Janesville, Wisconsin – widths are up to 7 feet and applications are for greenhouses, skylights and interior walls for this multi-wall sheet product.

Degussa AG plans MMA plant in China to come on stream in 2008-2009.

Chevron Phillips to expand Ryton® PPS production in Texas, doubling capacity by 2007.

Westlake Plastics, US, in talks with Perplas Ltd, UK, concerning medical plastics shapes?

In a possible related move, Westlake announced a restructuring resulting in a major reduction in its sales force last month.

Centroplast Engineering Plastics of Germany has acquired its UK distributor, Semiplas, which also represents Gammacril and Terbrack – another Perspex Distribution?

Tubing extruder Zeus undergoes major expansion for its heat-shrink products as its SC plant.

Artek Inc., UHMW PE extruder, expands its Indiana plant with a 35,000 square foot addition.

Rochling Group expands its Engineering Plastics division, an outgrowth of Sustaplast and Rochling and also acquires Seeber Belgium to vault itself into a top slot for engineering plastics producers globally.

PEOPLE: Matthew Costello named Product Manager for ZL Engineering Plastics, wholly owned subsidiary of Zell-Metall GmbH and Licharz GmbH.

In memoriam: Rudy Thal, co-founder (in 1945) and owner of E&T Plastics, New York distributor with 4 branches, passed away July 14, 2005 at the age of 83. His son Gary continues as President.

INDUSTRY INTERVIEWS: Mark Kramer, CEO and President, Laird Plastics Inc, unit of Blackfriars Co. We interviewed Mark by phone and email at his office in West Palm Beach, Florida.

Q. Can you describe “life at Laird after Blackfriars” (acquisition, that is)?

A. It’s really very similar – Blackfriars’ operating culture is one that allows us to run a decentralized operation. There’s just enough supervision but mainly we want to be close to the customer at the branch level. We’ve retained the notion of regional authority, but with 7 regional managers also acting as branch managers, we have them acting as “Player-Coaches”.

Q. Will Laird Plastics name be changing? If so, when and what will be the new name?

A. We have reached an agreement with Laird plc on terms that will allow us to retain the name going forward. No “re-branding” will be necessary.

Q. How about a headquarters move from Florida?

A. The lease on our building expires in 2006, but we intend to stay in Florida.

Q. How will LAIRD be similar to Consolidated Electrical Distributors (CED), if at all? Different?

A. Laird will operate under the same general business model that CED, and all Blackfriars companies, follow. This model emphasizes decentralized business units that assume commercial and operational authority as close to the customer as possible. Each operating site is an independent business unit responsible for its own P&L and Balance Sheet. The branches are organized into “regions” that will have a senior branch manager responsible for oversight and coaching of the other branches in the region. This model very closely aligns with the commercial structure that Laird has been adopting over the last two years. It will enhance the speed, flexibility and responsiveness of our branch operations and we see it as a major benefit regarding customer service.

Q. How will LAIRD, PORT, AMARI and now CALSAK Fit Together?

A. Laird, Port, Amari and Calsak will continue to pursue independent commercial interests and develop their own businesses as their markets and customer bases would dictate. Each will continue to have its own senior executive and management structure. Competition based on total value offered within certain markets is recognized as likely and accepted by the owners. Over time, obvious administrative efficiencies may appear that will enhance the profitability of all the member companies, but those have not been fully defined at this point.

...to be continued in the September 2005 Global Plastics Letter

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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