



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

FEBRUARY 2005

Dear Colleague:

Energized Executives... such is the state of mind of our industry's leaders as the new year unwinds. Unbridled optimism reigns throughout our sector with most economists forecasting solid gains in sales and profits generally for the global economy. Some salient reasons:

1. Market driven economies are being fueled by bank lending optimism
2. Capital markets are flush with cash and thus acting as incentives for bank lending
3. Productivity growth at record high rates
4. Oil price inflation seems to have stabilized at the US\$40-50 per barrel range
5. Government tax and economic policies are pro-growth with inflation under control

When the influx of defense, information technology, and security spending is factored into the equation, prospects are bright for a continuation of the brisk economic activity we saw in 2004. Further, a bottoming out for the US Dollar is due by midyear with China expected to let its Yuan rise slightly and with the speculation over trade and budget deficits leveling out.

We have just returned from the National Association of Wholesaler-Distributors (NAW) Annual Economic Summit in Washington, D.C. The NAW, of which IAPD is one of 150 member associations, representing 40,000 companies with 150,000 places of business, is usually ahead of the curve when it comes to forecasting trends in distribution and this year was no exception. Some predictions were:

- Future technology will change distribution by improving productivity, thus lowering costs and allow smaller companies to grow faster and compete with bigger ones
- Deconsolidation marches on thus returning market based growth to all companies, negating heretofore advantages of largest ones – E Bay is one such example of allowing smalls to compete more effectively
- Globalization creates middle class in China, India, Brazil, Malaysia and Phillipines, opening markets for all, stimulating fastest economic growth in 20 years
- Metals and Plastics markets to benefit from China's growth as its tariffs decline
- Web sites and the internet will continue to innovate the supply chain (see TRENDS)

TRENDS: Does your business need a good Web address? Now's a good time to shop around for a change of URL's as prices of many heretofore reserved but unused domain names are affordable. Resellers such as Moniker Online, Afternic and Sedo now offer them for just a few hundred dollars. Also protect that new domain (or existing one) from hijackers with transfer lock options offered by domain registrars which safeguard any request to transfer which only you can authorize with a password and/or encryption key. Self-guided web-based programs, such as those available from Hostcentric, Verio and others, make it easier for small businesses to profit from the internet by growing e-commerce revenue. In addition, Internet phones (especially VOIP) can save on phone bills, while providing integration of voice mail with email as well as including browsers for accessing company intranets and audio streaming. Once again a telecom revolution is occurring - to add to, not replace existing technology and thus adding complexity yet better productivity to the business mix. These are not simple years to be in business – but exciting ones!

New rules in the U.S. have gone into effect concerning employees working overtime not designated as “exempt” – significant penalties accrue for not understanding these regulations. For a simple guide to avoiding significant penalties, send an email to: [exempt@globalplasticsletter.com](mailto:exempt@globalplasticsletter.com).

Plastic polymer made from limonene, a carbon based compound found in orange peel oil, and carbon dioxide, shows promise for future applications in our industry – could revolutionize thinking about use of fossil fuels; reported by American Chemical Society.

Prospecting using NAICS (successor to SIC codes) categories is an idea whose time has been enhanced by computer driven market models – needs to be implemented by all in our industry, although often ignored in the past recession years as not high tech enough. Category 31 (manufacturing), is probably the most valuable.

For a most comprehensive report on Plastic Pipe – durability, integrity of joints, and corrosion and chemical resistance extending these products a longer expected service life (100 years or more) than pipe made of other materials, see [www.4spe.org](http://www.4spe.org), January 2005 issue.

Some 2004 results are in ... our industry achieved an overall 12.4% revenue growth over 2003, according to reliable consulting sources. Employment was up 3.5% for the same period. It is interesting to note that W.W. Grainger, after reporting an 8% jump over 2003 to record 2004 sales of US\$ 5 billion, is expecting similar growth in 2005 and significantly has folded its integrated supply business into the branch-based business... back to the future!

This is the year for manufacturer-distributor relations to dramatically improve – after decades of talking and trying. How? Lets see what drives them...

- Manufacturers – like big purchase orders, increased sales and market share growth
- Distributors – like exclusivity, rebates, tech support and new products

When both get what they want, the relationship is great. Well think about it: we're just 18 months removed from companies shutting down plants because they were not making money. Now they are and distributors have to let them profit for a while and then we'll see reinvestment. This results in lower prices, due to new capacity and new products developed as investment from renewed profits.

How big will China be in the growth of demand for chemicals and plastics? China represents roughly 15% of the consumption of these products. It is quickly developing its own capacity through the use of jv's and with trade barriers dropping will become a net exporter, thus balancing its demand and aiding globalization, especially in the Pacific Rim.

PRICING: The new year began, as expected, with a flurry of new price increases – notably 10-15 cents per pound by Rohm and Haas and CYRO, for methacrylate monomer, a forerunner of MMA sheet increases. Predictably, this was followed by an announcement by Atoglas and others that cast acrylic sheet would jump 6% and extruded by 10% - all effective February 15, 2005. Quadrant EPP quickly upped most engineering plastics shapes prices worldwide by an average of 3-9%. Resin producers were busy as well, celebrating the new year with price hikes for PP, PET, PC, ABS, nylon, PE, PVC and most thermosets. The only stabilizing factor effecting future increases, for natural gas-based resins, was the announcement that the first liquefied natural gas plant to be built in the U.S. in 20 years was approved in Texas and is expected to be running in 2007, adding 1.5 billion cubic feet per day of capacity. Other good news — benzene price down.

DISTRIBUTOR/MANUFACTURER BRIEFS: ThyssenKrupp AG reported generating US\$ 8 billion sales in the U.S. (about 15% of total worldwide revenue) – its AIN Plastics unit closed a branch in Chicago, while re-opening branches in PA and FL and decentralized previously operated regional warehouses in Atlanta and Mount Vernon, NY.

Piedmont Plastics and Regal Plastics West have closed on their 50-50 joint venture combination, to form Regal Piedmont LLC. Sure to be more changes in this new entity, becoming #3 in size.

Quadrant Group, of Switzerland, parent company of Quadrant EPP, raises sales 14% to record levels – 303 million Euros.

Solkote P is the first all acrylic capstock for PVC, from Atoglas, Division of Arkema – also producing capstock for ABS and HIPS.

Transilwrap Company, 73 old films and graphics distributor/convertor, was sold to management.

Bayer Films, Americas, division Sheffield Plastics, Inc. has released a new 12 page brochure describing its full line of PC films – now an alternative supplier for many in our industry.

Cyclics Corp, formed in 1999, is introducing its first CBT resins, a dramatically new family of materials that offer the processing advantages of liquid thermosets plus the properties of ETP's. Based on PBT and produced on the grounds of a BASF plant in Germany, Cyclics takes standard PBT and depolymerizes it into lower molecular weight CBT.

#### MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Ineos will buy Solvay's Adriplast and Calepiovinil subsidiaries – produce rigid PVC films in Italy, in a deal valued at 62 million Euros.

The Home Depot, Canada enters the industrial distribution business with its acquisition of Litemor Distributors, Canada's largest in commercial lighting.

Permatex, manufacturer of adhesives and sealants and formerly part of Loctite, has been sold to Illinois Tool Works.

Repsol buys petrochemical and plastics complex in Portugal from Borealis, boosting its PE capacity. Victrex plc, major supplier of PEEK, is considering China for a new 2000 ton/year PEEK facility – opens a commercial technology center in Shanghai later this year, reflecting LCD market growth. Regal Plastics West and Piedmont Plastics close their jv and begin to operate as Regal Piedmont, LLC.

PEOPLE: Ken Schwartz joins Sheffield Plastics, a Bayer unit, as Product Development Manager.

Peter Schilgen appointed Northeast Sales Rep for Quadrant EPP, succeeding Ed Wikar, who has a new IT assignment with the company. GE Advanced Materials (GEAM) names Greg Adams, first head of GE Polymershapes, (GEPS) as General Manager Advanced Materials, Automotive, reporting to John Krenicki, CEO of GEAM – most recently served as GM Marketing for GEAM, with John Carrington replacing him in that position. GEPS is now headed by Peter Arvan.

CYRO Industries appoints Cynthia Zey, Marketing Manager, Acrylite Polymers; Steve Costanzo, National Sales Manager and Joe Dubinski, Business Manager, Acrylite Sheet. Bob Neiman, Bryan Foust, and John Evans have all left Engineered Materials Mfrs Rep agency to pursue other opportunities in our industry.

INDUSTRY INTERVIEWS: ... continuing our interview with Mike Willoughby, President, Warehoused Plastics Sales, Canada.

**Q. What are best new products you have seen in the last 10-15 years? Any future ones coming along? What are they?**

*A. Mel, lets just go a little further back and I would have to say UHMW (poor man's Teflon) is a winner. I think UHMW is one of the most versatile plastic products out there. I have watched it replace wood, steel, nylon, and Teflon in so may applications while saving the end user in some cases thousands of dollars. Twin wall polycarbonate sheet is another great product line with so may applications, especially in colder climates. I still see lots of opportunities for improving existing products with improved fire retardancy, better UV inhibitors, and better resistant coatings.*

**Q. What are some of the biggest changes you've seen in our industry during your career?**

*A. The GE acquisition of Cadillac and Commercial Plastics has to top the charts. It has changed our industry forever. Now we have the acquisition of Laird Plastics. Who's next??*

**Q. Will this industry look different by 2010? If so, how? If not, when?**

*A. I think through mergers and acquisitions our industry will have less players. You would see this happen in the past but in a short period of time a new company would get started by a former employee and the war begins again. Today, it is becoming cost prohibitive to get started in our industry in both manufacturing and/or distribution. Also, the product lines you would need to become profitable would be hard to acquire due to the politics involved. But, look how our industry has changed in just the past five years! I think the next five years will be very exciting.*

**Q. What advice would you give a new marketing person entering our industry today?**

*A. Find a smaller sized company to work with and introduce some fresh ideas. Traditionally, we have marketed our industry products the same way for years. It would be refreshing to find a person that thinks outside the box, learning about all of the products and their properties and developing entirely new markets. I believe you should be able to use great customer service and just-in-time deliveries as a huge selling tool. At Warehoused Plastics I believe we have embarked on new ways to do just that. Even though we approach the market with the traditional catalogues, brochures, and Yellow Page ads we are also experimenting with TV, radio, and newspaper promotions. In the near future, the IAPD Sales Certification program will be a new, wonderful marketing tool to be used too.*

**Q. If you could come back in another life as someone else, who would it be? Why?**

*A. You might not believe this, but I would like to come back as a Canadian Prime Minister. I would like to be in a position to make a difference. We have so many issues in Canada that need resolving. It is frustrating to stand by and watch the complacency of our past and present governments. Canada is a great country that in my mind lacks leadership.*

**Q. What do you consider your greatest accomplishment?**

*A. Tough question. With respects to my family I believe being a good husband and father to my children, and now it's wonderful to be a grandfather. Today, it is so important to spend as much time as we can with our children. How we shape the children today will dictate the type of world we live in tomorrow. With respects to business I am very proud of my accomplishments over the past thirty-seven years. The plastics industry has given my family and so many others a good living. That is one of the reasons I have been so dedicated to the IAPD Board of Directors and other committees that I have served on over the years. It is very satisfying and rewarding to give back to the industry that's been so good me. Any individual that has the opportunity to serve in this great plastics industry should and I'm sure they will never regret the decision.*

**Thank You.**

*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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