



# GLOBAL PLASTICS LETTER

E-mail: [mettenson@globalplasticsletter.com](mailto:mettenson@globalplasticsletter.com)  
Website: [www.globalplasticsletter.com](http://www.globalplasticsletter.com)

*“A World of Plastics Information”*

**Part news. Part views.**

JANUARY-FEBRUARY 2014  
15<sup>th</sup> Year, Second Century

Dear Colleague:

Economists exhibit evidence...recovery really relevant? What is playing out on the global economic platform is the inevitable comparisons with the 1930's “great depression” versus the 2007-2008 “great recession” and the 2013-14 “not-so-great recovery” and how the globe can cope. Keynesian theory believers, on one hand, are advocating further government spending, based on how the world dealt with the depression, while conservative governments continue to press for lower deficits and budget cutting. Which theory works will determine the course of business, and our industry, for the balance of this decade of the 21<sup>st</sup> century. Some of our key economic (based on consensus with good track record soothsayers) forecasts for 2014:

GDP growth: 2.7% vs 1.8% in 2013      Interest rates: 3.0-3.5% (long term), by end of 2014  
Inflation: 1.8% vs 1.5% in 2013      Crude oil: \$90-95/bbl through end of March.

Sales results for 2013 are coming in from both manufacturing and distribution sectors and the consensus seems to be: UP High Single digits to Low Double Digits, year over year. Just as importantly is the inflation (thus price) index, which is trending up 2.6%, again year over year (source: U.S. Bureau of Labor Statistics, Producer Price Index)

## **TRENDS:**

Global GDP growth forecasts for 2014: World: 3.5%; U.S.: 2.7%; Eurozone: 1.1%; China: 7.5%; Canada: 2.3%; India: 5.2%; Brazil: 2.5%; Russia: 2.4%; Mexico 3.2%; Japan: 1.6%.

Our industry's sales growth stemming from 4Q 2013 results should lead into a robust 2014, with 4% forecast, although low double digit revenue growth is likely across manufacturer & distributor sectors. Pricing trends and inflation are not expected to add more than 1.5% to these forecasts.

Bubble-like keyboards that rise from smart phone screens are coming...allowing better touch technology for higher productivity. Look for U.S. population growth to slow to under 1% a year along with Europe and Japan. India, China and Indonesia will be above 1%. Of course populations in most developed nations will age with the advent of improved health care and medical advances. Markets for most products will reflect these demographic trends.

**OUTLOOK ASIA:** by Mal Binnie, our special Pacific Rim correspondent in Australia. Happy New Year and Chinese Lunar New Year... Year of the Horse (Yang Wood) to all our readers in the Pacific and around the Globe. This year should see the Pacific plastics industry continue to grow and strengthen particularly as China will continue to find answers to its manufacturing sector. The flash PMI for China reported in

January has shown output in decline, the first time in at least 6 months. The PMI was reported at 49.6 down from 50.5 in December. To assist growth Beijing has announced the approval of 12 new Free Trade Zones; however these are not expected to be operating until late 2014. Statistics from Chinese customs indicate growth of plastics resin imports of 3.9% over 2012 and exports of processed plastics grew 5.3%. Edmund Wong, Simona Hkg, has been appointed to replace Marc Liesenfeld who has returned to HQ. Qingdao P&B Co has reported that its new business name will be Qingdao Berry Plastics Ltd and that 75% of its shares have been acquired by Berry Plastics Group, Evansville, USA. The global medical devices market in China is reported to expect significant growth in 2014 and film manufacturing companies such as SABIC with Lexan and also GC Ltd with their PolyLite range are reported to benefit. The aging population in China rising from 100 to 300 million will also accelerate the market for medical products. SABIC has officially opened its Shanghai Technology Centre. Film capacity in China is expected to grow to over 5 million tonnes in 2014. Taiwan manufacturing including the plastics sector is projecting an increased growth rate of 3.09% for 2014 up from 2.15% last year.

The plastics industry in many countries in the Pacific is showing deep concern over the cost impact of drastic increases in electricity tariffs. Plastic manufacturers in Malaysia are facing a 16.85% increase from January 1. Australian manufacturers are still awaiting the new Federal Government to introduce legislation to remove the Carbon Tax and thus relieve costs. Confidence in Australia remains uncertain with the December PMI down to 47.6. The \$Aust has fallen below 0.89 \$US assisting local producers in export. Ken Girdlestone National Engineering Polymers Mgr with Plastral Ltd celebrates his 5th year with the group and reports that the company will benefit from Simona acquiring Laminations, USA, and thus presenting new products for the Australian market. Amcor Ltd has confirmed its deal through its US subsidiary to acquire the assets of Constar Inc. This continues Amcor's growth in the USA. Samantha Read has joined the Plastics and Chemicals Industries Assoc (PACIA) located in Melbourne as CEO and is said to be a passionate supporter of local manufacturing. The NZ manufacturing industry finalised 2013 showing solid growth which was also reflected by the plastics industry. The NZ PMI for December was 56.4 a strong result even though marginally down on November.

#### **OUTLOOK EUROPE: by Ralph Ammann, special EuroZone correspondent in Germany**

First report of the year 2014 goes on where the old year ended: With news from German-based Röchling Group. The plastics specialist has now started production in its new plant in Wackersdorf. Last year Röchling Automotive, had acquired a 36,000-square-meter property in the industrial area. In May 2013, construction began on a new production facility, including logistics and administrative services. Elsewhere, Saint-Gobain Performance Plastics has bought German molder LS Kunststofftechnologie GmbH. The last acquisition of the group is based near Frankfurt in Wertheim, Germany. The company who employs 220 people owns two production sites — one in Wertheim and another in Neuhaus near to Erfurt — molding high-precision parts using high-temperature resins for automotive, medical and industrial applications. It has 220 employees. The purchase price was not disclosed. LS manufactures products for the auto industry including high-performance parts used in steering and chassis components and within the powertrain. It has clean-room production for medical disposables and produces a range of multi-component systems for a variety of customers. LS co-develop tailor-made solutions in response to its customers' specific requirements and has cutting-edge expertise in design, tooling, testing and the processing of high-temperature polymers. It has in-house expertise in design, tooling and testing its parts. According to the buyers the new locations in Germany will help the North American-based performance plastics division expand its sales in Europe and is a perfect fit with the Group's strategy of strengthening its positions in high-performance and co-developed solutions. On the product site, IST Innovative Shoulder Technology AG and Argomedical AG have created another addition to their successful product portfolio with the development of a knot-free Plug-n-Twist suture anchor made of PEEK from Evonik Industries. Plug-n-Twist anchors are impact anchors for the second row in minimally-invasive arthroscopic sutures on the shoulder's rotator cuff. According to the company the

use of the new anchor does not require any changes to intraoperative procedures. The innovative design of the Plug-n-Twist anchor allows it to be easily inserted and, if necessary, removed by means of unscrewing. “PEEK has proven successful as an implant material. It is biocompatible and ideally suited for medical imaging procedures because it does not generate any artifacts,” said Dr. Christoph Sternberg of Etzelclinic in Pfäffikon (Switzerland). “Another advantage of using PEEK as an anchor material is its easy handling in any later revision surgery, in case the anchor is severed with a bone saw and has to be removed.” Finally, the German Institut of Kunststofftechnik, based at University Stuttgart, has developed a new procedure to manufacture polyamide 6-specialities out of monomers of caprolactam. To produce impact resistant PA6-block-copolymers the monomer together with an activator and a catalyst is put in a twin-screw extruder ZSK26 of Coperion and polymerized. During the process the melt is degassed to reduce the amount of monomers to a minimum allowing to influence the impact resistance of the newly build block-copolymers specifically.

### **OUTLOOK INDIA: by S. Randharkrishan, Editor, Popular Plastics & Packaging, India**

The United Nations’ Industrial Development Organization (UNIDO) has started an International Center for Advancement of Manufacturing Technology in Bangalore to implement the “National Program for Developing Indian Plastic Industry”. It helps these plastics firms address problems relating to low productivity, shortage of quality manpower, low adoption of advanced manufacturing technology, weak technology innovation, process capability, cost-efficiencies and a lack of specific knowledge of biodegradable plastics, through a wide array of interventions and initiatives, said Bhavna Mathur, senior project assistant for the center. The project is a diagnostic study and gap assessment and action plan implementation at 100 plastics companies in India, spread across the five geographical clusters of Chennai, Bhubaneswar, Ahmedabad, Delhi and Mumbai. Belgian based chemical company Solvay SA is rapidly expanding in India as part of its global strategy of growing in emerging economies. India subsidiary Solvay Speciality India Pvt. Ltd. generated sales of around 227 million euros in 2013. Solvay opened a global R&D center in Saveli in the middle of 2012, which focuses on primary research and application development. It currently employs 50, and Solvay plans to increase that to 200 in the next three years. The manufacturing plants make specialty polymers, engineering plastics, surfactants and chemicals. Indian rotational molder Maharashtra Maha Polyplast Pvt. Ltd. is developing a new line of products to improve living space in India’s dense metropolitan areas. With concrete jungles erected overnight in India, there is hardly space left for plants and greenery, the company said. Moreover, the fast pace life in bigger cities have hardly left anyone to spend time with plants. Maharashtra Maha Polyplast seeks to bring city dwellers closer to plants through a rotationally molded “self-watering mobile plant unit,” which can be placed on a balcony in a multi-story housing complex. Maharashtra Polyplast is building the unit based on a design developed by a U.S. company with a designer in Pune. The product, which was launched at Plastivision, will cost about 30,000 rupees (\$485). The company already has orders for 150 units. Venezuela and India have agreed to build a naphtha production unit in the South American OPEC nation in the latest sign of widening energy ties between the two countries, Venezuela’s foreign minister said, as per Reuters. Details have not been disclosed about the deal, the size of the proposed unit. Several big Indian energy firms, including Reliance Industries, already work with Venezuela’s state oil company PDVSA.

### **PRICING:**

*Plastics News January Resin Report* available for free download for limited time by emailing: [plasticsnews@e.ccialerts.com](mailto:plasticsnews@e.ccialerts.com)...a comprehensive authoritative overview. Affecting our industry are commodity resin prices such as the polyolefins, which continue soft to flat as 2014 begins, with the possible exception of PP. Additional shale gas in the U.S. not expected to help lower PE prices this year. Acetal (POM) prices rise single digits, as do some PVC prices and nylon 6 to follow. PC remains steady as do most other ETP’s with the acetal and possible nylon exceptions. Styrenics beginning to trend upwards. Look for an upward tick in most resins into 2Q 2014. Mild inflation is returning as demand accelerates - moderate capacity added.

### **MANUFACTURER/DISTRIBUTOR BRIEFS:**

Kydex LLC appoints Acrilicos Plastitec as exclusive distributor for Kydex sheet in Mexico. Bayer MaterialScience's Makrolon® selected for front panels and top caps on 15,000 ChargePoint EV charging stations. PolyOne announces strong 4Q and FY 2013 earnings bolstered by its acquisitions of Spartech and Glasforms...on revenues of \$3.8 billion, a 32% increase over 2012. Also consolidates some plants and administrative offices. Kydex LLC wins Brentwood Industries supplier award. Ensinger consolidates cast nylon operations from PA to NJ. Saint-Gobain PP reveals sustainability gains for Tygon S3 tubing. Victrex plc gains status by placing in the top 20 most admired UK companies. Shin-Etsu Silicones develops liquid silicone rubber (LSR) capable of bonding most ETP and HPM materials such as PEEK and PEI. E&T Plastics opens new branch in Missouri.

Clear View Audio develops speaker called Clip – made of .040 thick curved clear acrylic which vibrates to play music. PE balls protect California reservoirs; LA buys 6.4 million 4 inch balls.

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

This year promises to be big in M&A's generally and in the plastics industry especially, with both distributors and manufacturers of plastic shapes being in the forefront. This follows a slow year generally. Private equity firms are circling our industry's tents...expect some major consolidation in 2Q. Acquisition multiples are running from 5-10 times EBIDTA. Simona AG (2013 est sales of \$390 million) buys Laminations Inc., expanding its TP sheet business in North America. Rochling starts production of semi-finished shapes in India as Rochling Engineering Plastics (India) Pvt. Ltd. - will produce 1000 tons of ETP initially with 40 employees on a 35,000 sq meter site to take advantage of double digit growth expected in Indian market. 3D Systems buys Village Plastics, increasing its penetration of 3 dimensional printer markets using thermoplastic filaments and rods. Fluortubing USA, LLC expands its KY plant for extruded PTFE tubing for food, chemical and pharma industries.

**Editors Note:** In the November, 2013 Industry Interview with Raymond Pace. Saint-Gobain Performance Plastics, in answer to the question as to what percentage of the product line is sold through authorized distributors, the answer was 50% ...he meant to say **roughly 40%**.

**INDUSTRY INTERVIEWS:** Guy Blissett, IBM Corp, and author of *Facing the Forces of Change: Reimagining Distribution in a Connected World*, sponsored by NAW and presented courtesy of *Modern Distribution Management (MDM)*, originally published in their 12/10/13 issue, which can be viewed online in its entirety at: <http://www.mdm.com>

**MDM:** The subtitle of this year's *Facing the Forces of Change* report is *Reimagining Distribution in a Connected World*. What's the idea behind the title?

**Guy Blissett:** There are two things to note there. One is the word "reimagining," which refers to the acute need for distributor executives to think innovatively to reimagine the role they play in the value chain with their customers, suppliers and other stakeholders, as well as thinking very differently about the role of the different company functions, like IT and marketing, in the business. It's not just reimagining the value proposition of the distributor but also reimagining the importance of the internal functions that will deliver on that proposition.

The other key word there is "connected." We know that individuals are more connected than ever, and they're able to access information more dynamically. That same dynamic and expectation is going to change the types of interactions we have with customers, because some of the things that we've traditionally delivered to them like basic product information, features, functions and availability are all available now through websites and mobile apps. That's creating an amazing opportunity for distributors to redirect customer-facing resources, building trusted advisor relationships based on insights and solutions.

**MDM:** How does today's business environment differ from that of 2010 when the last edition of *Facing the Forces* was released?

**Blissett:** When we were conducting research for the 2010 report, the macro economy, and distribution in particular, was still facing a great deal of uncertainty, and that was creating hesitancy in terms of investing in new capabilities, systems, warehouses, inventory and personnel. One of the messages we wanted to deliver was that rather than viewing uncertainty as a reason for caution, it was really more of an opportunity for leading distributors to create separation between themselves and their peers.

I think what's really changed versus 2010 is that we now are facing not only those same uncertainties, but many more forces of change on top of that. If you look at where we are today, there's a lot of uncertainty in areas such as the job market, the nation's debt ceiling and budget negotiations, and the new health care law.

It's sobering to reflect on what happened to those distributors that sat on their hands in 2010 and didn't make investments in their business. Today, rather than viewing all of these complicating factors as challenges, I view them as opportunities for distributors to fundamentally change how they run their business, how they engage with customers and the types of value propositions they deliver.

It can be daunting and unnerving, but I think the environment today is far more exciting and full of opportunity than it was three years ago.

**MDM:** One of the forces of change mentioned in the report is new technologies. How can new technologies be leveraged to create competitive advantage?

**Blissett:** That's a very interesting area and obviously a very salient area for distributor executives to consider. There are so many developments happening now that I think there's a tendency to become enamored with new technologies and to focus more on technology features than how they can be applied to change ways of working and ways of engaging.

Distributors need to think innovatively about what the technology will allow them to do differently. It's not just about putting tablets into the hands of your sales force, for example; it's about what the sales force is now able to do when they meet with customers that's completely different from what they used to do.

For example, the tablet enables distributors to facilitate a deeper, more expansive discussion using online analytic tools, including what-if scenarios around ordering patterns and delivery schedules; video clips of products and services and their application; dynamic negotiating and pricing functionality; and the ability to review order status, history and future requirements. The technology enables a different conversation, and the capture of information more dynamically, so the technology itself is less relevant than the processes and the interactions that we're able to change by leveraging that technology. It's a fine point – it's one that I think a lot of executives get tripped up on.

**MDM:** When it comes to technological innovators, which companies should distributors be keeping an eye on?

**Blissett:** There's obviously a huge amount of attention being paid to AmazonSupply and the rapid expansion of their product lines. There are now over a million items on their website. Amazon recently added foodservice and grocery categories. They offer 3D printing supplies and equipment. They are exploring using drones for deliveries, something we suggested was possible in the latest *Facing the Forces of Change*.

With their scale and track record, they're certainly a company to pay close attention to, but I think you also need to look more expansively across your peers as well as nontraditional competitors for inspiration, and to see your future competition.

If we look at some B-to-C retailers, in particular in building supplies and office supplies, they are pushing much more aggressively into the B-to-B space and sharpening their capabilities. Lowe's has launched their

Lowe's ProServices, Ace Hardware has The Supply Place and Staples also has a strong B-to-B component that now includes medical supplies.

I think the other interesting thing to look at is how B-to-B sellers are engaging directly with consumers – not necessarily going around their customers, but looking to augment their customers' interactions with the end consumer. Look, for example, at what Ferguson has done in building their showrooms around the country and doing direct marketing on TV and radio to the end consumer. They're helping their contractor customers engage with consumers to make product choices that are right for the consumer and that benefit the contractor and Ferguson.

There are many pockets of excellence and innovation across all lines of trade, both online and in traditional domains, and those companies that are innovating are winning.

**MDM:** Earlier you mentioned the changing role of IT and marketing within companies.

**Blissett:** I think those are two functional areas of business that are going to undergo a seismic shift over the next few years. For many distributors, IT is perceived as a support function. In that context the CIO delivers on projects, implements software, keeps systems up and running and responds to the needs of the business, but they haven't traditionally been viewed as a key business partner.

That's rapidly changing if you look at the way CEOs perceive IT in this year's *Facing the Forces of Change* report. More than 40 percent of CEOs in distribution say they want to use IT as a competitive weapon. They don't see it as just keeping the lights on; they really see the potential for leveraging IT as a source of differentiation, and that's going to drive very different expectations about the way the CIO engages with the rest of the business. It's going to require a far more collaborative, consultative IT function.

In many ways the role of the CIO going forward is going to be much more about figuring out how to rapidly integrate and iterate new technologies into the business and helping other functions within the business quickly understand and evaluate different options.

Marketing is also beginning a huge shift. Five years ago, you wouldn't have seen too many distributors with a chief marketing officer, or even a VP of marketing in their corporate hierarchy. Now, however, a growing number of distributors, especially large ones, have somebody with that responsibility. This is a discrete function and position versus a combined sales and marketing position.

In much the same way that IT is being elevated, we're seeing a shift with marketing from sales enablement – printing brochures and other collateral – to a marketing function that defines the value proposition, assesses the market and identifies white space opportunities, which includes taking a far more assertive role in prioritizing investments and capabilities.

That sounds intuitive but is a major shift from the traditional hierarchy where sales has taken the lead and exerted influence in terms of the customers they call on, the products they sell, the value proposition they pitch and how they spend their time. Going forward, marketing is going to assume more of those responsibilities.

**...to be continued in the March-April 2014 issue.**

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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E-mail: [mettenson@globalplasticsletter.com](mailto:mettenson@globalplasticsletter.com)  
Website: [www.globalplasticsletter.com](http://www.globalplasticsletter.com)