



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JANUARY 2004

Dear Colleague:

Wait ‘till next year! ... was the business cry throughout the first years of the 21<sup>st</sup> century – next year is finally here on the wings of an economic “perfect calm” after the “perfect storm” of 2001-2002. With recovery rampant and disinflation continuing, confidence and corresponding investment is once again prevalent. A surge in factory output... up for the third straight month... is one of the brightest signs. Businesses are finally gaining confidence that sales will keep rising.

However, in our January **2003** issue we forecast an 8-9% revenue and profit growth for our plastic shapes industry – all indications are that it was closer to a 5-6% growth when all results are in.

Since forecasters like company when they are wrong, we will add that Jeff Immelt, CEO of GE, predicted that GE Plastics would finish 2003 with a 13% revenue growth and a 10% profit growth – he was wrong as well with preliminary indicators showing only single digit growth for GEP.

Thus it was a year that started out slowly but turned out to be the “comeback year” for most markets and industries including our own.

Now for our annual look ahead; we see double digit growth in revenues and profits, on a year over year basis for our global plastic shapes industry (still known as semi-finished plastics in Europe – and sheet, rod, tube, film by some in the U.S. and Asia). With forecasts of overall U.S. and global business profits gaining about 11-15% and revenues about 9-12 %, our industry should mirror those numbers, with distribution coming in on the low side. We are bullish primarily because the materials sector of most global economies are headed for a superb year as recovery in the industrial sector boosts demand.

Materials are poised to get a notable lift from Asian customers such as China and a recovering Japan. Energy companies had a banner year in 2003, mainly due to rising oil prices, but crude is likely to weaken in 2004 as plenty of new supply comes on line.

Some concerns remain on the horizon: 1) the weak U.S. dollar is still falling due to interest rate disparities with other nations; 2) the U.S. trade and budget deficits; 3) U.S. corporate scandals and 4) concern about new terrorist attacks. Any or all of these depressing factors could serve to dampen the most optimistic business outlook we have seen in this century.

TRENDS: The 2003 study of the U.S. Plastics Industry, conducted by SPI was just published and some highlights are:

- A \$310 billion industry, including manufacturing and distribution (NAICS 325211, 325991, 3261 and 42261) – the fourth largest US manufacturing industry
- During the period of 2000-2002, dollar shipments decreased 14.7%, while numbers of employees fell 8.8%
- Compound annual growth rate was – 5.4% during the period of 2000-2002

An executive summary and table of contents of the study as well as state-by-state and regional fact sheets are available online at: [www.plasticsdatasource.org/impact.htm](http://www.plasticsdatasource.org/impact.htm).

We also highly recommend reading the National Association of Wholesalers (NAW) Economic Forecast 2004 – it has been an accurate predictor of trends in distribution as well as manufacturing that supports it. Further information is at [www.naw.org](http://www.naw.org). (We will be attending the NAW Annual Economic Summit Forecast, held in Washington, D.C. at the end of January and will report on the proceedings and views of the guest speakers from inside the current U.S. Administration.)

Of great concern in our industry is the deteriorating health of manufacturer-distributor relations which will require both parties to make some tough decisions in 2004 as the economy recovers. Manufacturers are finding that large customers want direct relationships that squeezes the distributor's traditional role. Web sites allow customers of all sizes to access information directly and bypass the distributor's sales force while building their brands with distributors offering a service increasingly undifferentiated. Service-for-fee becomes more of a reality.

Buying new office PCs? You can get cash back from your old ones if they are no older than 3 1/2 years old and still in good operating condition. Dell and IBM will pay you up to \$100 for each used piece of equipment – Dell for single units, IBM has a minimum of 10 items (any combination of desktop, laptop PCs, servers and laser printers.)

China's demand and a weak US dollar (oil is priced in this currency which is especially weak against the Euro) may support the current high oil prices, at \$32 per barrel at the beginning of 2004. With Iraqi oil still not flowing significantly and with China demanding more, we may not see a retreat in oil prices until late 2004 or early 2005 – and plastic resin prices will reflect this.

Expo India, slated for February 25-28 in New Delhi, promises to be a major exhibition for plastics, printing and packaging products. India, which has shown strong growth on global plastics markets, should be of interest to most in our industry for both export and import opportunities.

PRICING: The trend is definitely upward, although tempered by some over-capacity in some selected areas. However the long drought of depressed prices will stand some adjustment and the demand from China is also a consideration in forecasting price moderate increases. Price increases probably make some sense in order to help fund new product development and introduction. Some selected resins that are rising in single digit increments are PE, PP, and PVC. PS is holding steady as are the HPM's, although any significant new applications and/or products will probably trigger a round of single digit increases in this sector in 3Q 2004.

DISTRIBUTOR/MANUFACTURER BRIEFS: Palram has been awarded a contract to supply 24,000 square meters (approximately 69,000 square feet ) of 12mm thick solar grade hard coated PC sheet for the 90,000 seat Olympic Stadium in Athens Greece in time for the 2004 Olympics.

General Electric has combined GE Plastics with GE Silicones and formed GE Advanced Materials, headed by John Krenicki who took over GEP last January. The combined business, which also includes quartz materials will have annual sales of \$8 billion.

AIN Plastics, a ThyssenKrupp Materials unit opens two new locations in Nashville, Tennessee and Orlando, Florida.

The European Association of Manufacturers of Polycarbonate Sheet (EAMPS), consisting of EMP (Switzerland), GEP (Netherlands), PSE- Makroform (Germany), Paltough and Polygal (Israel), has launched a new website at: [www.polycarbonate-sheets.com](http://www.polycarbonate-sheets.com), which has application information about PC sheet markets and projects such as the Palram story above.

Lucite International has had its Perspex cast MMA sheet product specified for signage letters in all Nissan dealerships in Europe – who is supplying? Captive or independent distribution?

Spartech announces quarterly earnings rose 5% on a 7% increase in sales and forecast fiscal 2004 profits to rise 26%, largely due to strong demand in transportation, roofing and pool and spa markets as well as expecting to make two or three acquisitions in 2004.

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

Bayer Polymers is now a new legal entity, Bayer MaterialScience AG, and is expected to begin with sales €7.4 Billion and will concentrate on PC and PU as key technologies. The semi-crystalline thermoplastics business, formerly part of Bayer Polymers will be combined with Bayer Chemicals into a separate company which will be named by early 2005.

Atoglas, a subsidiary of Atofina of France, will increase acrylic resin capacity in South Korea, from 17,000 metric tons/year to 40,000.

Sumitomo Chemical America will build a thermoplastic olefin elastomer (TPE) plant in S.E. US.

GE Plastics expands in Nansha, China at its plant that produces PC resin and PC graphic film grades, as well as ABS and Noryl.

The DuPont Teijin jv is expanding its PET film capacity in China to a 57,000 tonnes/yr capacity.

Bayer and DuPont opens its jv plant to produce PBT in Germany.

Celanese AG is taken over by group of investors, headed by Blackstone Group of the US; this after its spin off from Hoechst AG in 1999. Including its Ticona unit, annual sales were €4.3 billion in 2002 and it operates with 10,700 employees world wide. Kuwait Petroleum was a majority stockholder with a 29% interest. In a related move, BASF buys Ticona's nylon 6/6 business, which follows its take over of Honeywell's nylon business marketed as Celanese.

Spaulding Composites has been formed following the acquisition by Metapoint Partners of the assets of the Laminate Division of Spaulding – manufacturing will continue in NH and ILL (US).

As reported here exclusively last month, Simona AG of Kirn, Germany has completed its buy out of HPG International's extrusion business in Mountaintop, PA - \$12 million in annual sales and 30 people are involved. Simona had worldwide sales of €173 million and 2000 employees.

PEOPLE: GE Polymershapes has re-hired former Comco, Cadillac, Laird employees Marty Billick, Gary Chapman, Mike Johnson and Marty Eakins.

Jeffrey Lipton appointed President and CEO of NOVA Chemicals.

John Krenicki becomes CEO of GE Advanced Materials (see story above)

Walter Janshen is heading Simona America as President; is currently Sales and Marketing Board Member for Simona AG. Ulrich Nickish appointed COO and John Ploskinka is Exec VP Sales and Marketing, with Ron Mackunis assuming Controller, Treasurer and Secretary.

Quadrant AG announces the election of Wolf-Gunter Freese as CFO and to its Group Management Board.

INDUSTRY INTERVIEWS: Craig Naylor 54, Group Vice President, DuPont Performance Materials, which includes DuPont Engineering Polymers and DuPont Packaging & Industrial Polymers. Joining the DuPont in 1970, Craig held various management positions in DuPont's Plastics Business and was appointed to his current position in Wilmington, Delaware in February 2002.

**<Editors Note:** This copyrighted content is reprinted here with the permission of *Plastics News*, which first published it in its NPE show daily on June 25, 2003. We are featuring excerpts of this interview this month as a look ahead to several new products planned for 2004 by one of our industry's leaders in introducing new products which have been absent these past few years and are sorely needed. For the complete story and interview please go to the following website:

<http://www.plasticsnews.com/npe/features.html> - look for this headline:

**DuPont's Naylor anticipates a 'heyday' for ETP's**

**Q. Can you describe the challenges in developing new engineering polymer materials? It seems that if you're really successful, the materials eventually move toward becoming commodities. Is there a certain window of opportunity for new products?**

A. You have to have strong product technology and a competitive cost position. You also need the ability to move down the value chain and work with customers that might be two or three steps removed from where you transact. Develop a reputation with them first and be able to deliver productivity and functionality improvements that allow them to differentiate their products. And then coordinate with the entire value chain the steps between them and you, so you make it a commercial reality.

That way, you can extend the life cycle of a product so that even when the product starts to mature, you continue to work with customers down the value chain on new ideas and new innovations, so you can keep the pipeline healthy. If you just play [in one application] and don't do new applications and solutions development, you'll see much faster erosion. But if you continue rejuvenating with those customers, doing highly technical work, then you can offset natural commoditization dynamics.

When you look at our whole application profile, we've got some mature products, some embryonic and everything in between. What we've started to do is look at product portfolio management, which many people do, but we're now looking at it as managing a portfolio of applications. We have six business units that go through one marketing force. Not a separate nylon, polyester or acetal marketing force, but one that sells the whole product line. Their job is to pick the best product fit with the application, not just drive nylon or polyester.

<To read the entire text of DuPont's Naylor's views on ETP's go to the website referred to above or to: <http://www.plasticsnews.com/npe/features2.html?cat=38&id=1057158874>>

Note: In an upcoming issue we will be taking an additional look at the subject of new products and applications as necessary to the survival of our industry as well as featuring excerpts of an interview with Ian Paterson, head of Bayer Polymers America also featured in *Plastics News*.

*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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