



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JULY 2004

Dear Colleague:

Stagflation simmering?- the “s” word ... stagflation ... is on many more lips these days. The recent sharp rise in oil prices is causing some analysts to wonder if they’ll spur a combination of inflation and sluggish economic growth. Odds of stagflation occurring, as it did when oil prices soared in the 70’s, are very slim since today’s economy can absorb high oil prices more easily since businesses are more efficient now – able to produce goods and services with about half as much energy. Even so, there is a limit to what the economy can withstand. If terrorists were able to cripple a major oil installation, sending prices to \$50 a barrel (prices have just backed down from \$43 to below \$40), stagflation would become a real possibility.

At this writing, the economy is seeking a level, combining strong growth, steady job creation and a business-friendly rate of inflation – on track for a 4.5% growth in 2004 and moderating slightly to around 4% next year. A demand-led price growth is allowing companies to raise their prices after a long dry spell. The business community’s confidence is rising, with investment likely to gain 10% this year and next – a critical turnaround that augers well for our industry which had to contend with tight purse strings for the past 3 years.

Metals prices continue to rise, as industrial demand grows in the U.S., Japan and elsewhere, although cooling slightly in China. Through early 2005, nickel, aluminum, copper and zinc prices will trend upwards – only relief appears to be in hot-rolled steel by early next year, with prices dropping to \$525 a ton – unlikely to head lower ... and this opens up more replacement looks by industry providing openings for new plastics-as-replacement-for-metals applications.

Export sales will rise in the U.S., Europe, Japan, Canada and Mexico and thus the effects of globalization are expected to benefit our industry in particular. Are you maximizing your export opportunities? At this point in the recovery cycle globally, some capacities will be ramped up to help ameliorate some temporary shortfalls in supply which are adding to inflationary pressures (see PRICING below). Typically, the existence of excess capacity leads to needs to export and this we see happening in 4Q 2004. Especially in the case of acrylic sheet, some new markets such as flat panel screens are causing higher than anticipated demand and acrylic resin producers do not want to get caught napping in the face of a burgeoning market, as they did with CD and DVD discs which were ceded to PC producers.

**TRENDS:** At the halfway juncture in 2004, trends are in place and/or developing at a record pace, probably reflecting pent-up demands as we emerge from the three year doldrums we just experienced. An example is the report that consumption of plastic films in Russia is rising.

K 2004 is scheduled for Oct. 20-27 in Dusseldorf Germany and is expected to have a record turnout in contrast to Oct. 2001 (228,000 attendees) when the industry was recovering from 9/11, as was the world. The exhibition, spread over 150,000 square meters and 17 halls, will feature 2900 exhibitors from more than

50 nations – there will be one exhibit area (consisting of over 450 exhibits – 16% of the total), devoted exclusively to semi-finished plastics, fabricated parts and reinforced plastics! For more information see: [www.k-online.de](http://www.k-online.de).

Asia, with over 40% of global plastics production and two giant growing economies, India and China, currently consumes only 20% of plastics used in medical applications and thus ripe for growth in this and many other markets – spells opportunity for both manufacturers and distributors. Speaking of distributors, the industrial supply and power transmission coop group, IBC, with 55 distributors and 85 suppliers are linked through an extranet. The coop has ten employees, keeps lean and relies on tablet PC's to maintain the self service extranet which executes trades and pools volume to cut transactions costs to stay competitive... an idea for IAPD? Which leads to another trend – data creation...

Data creation has run amok – you can get a headache just trying to wrap your mind around how much information, most of it extraneous, that this globe produces. As an example, per capita, the U.S. produces enough data each year to fill seven pick up trucks full of books (source: IBM).

As an example: Typical transactional databases have gone from 100 gigabytes in 1999 to 1 terabyte in 2004. [100 gigabytes represents 250,000 songs on an iPod – a terabyte represents 200 DVD movies]. Coming soon will be data to the extent of 1000 terabytes, called a petabyte which represents all printed material ever produced including duplicate copies. Lying in wait is the exabyte (1000 petabytes), which represents all words ever spoken by human beings!

HDPE is growing once again in Europe, with consumption projected at a 5.2% increase in 2004, led by demand for HDPE pipe. This optimistic forecast follows a low growth year in 2003 and is typical of most resin trends globally. Tempering this news is the announcement in June that the major producers of urethane and neoprene, such as Dow, DuPont and Bayer are being scrutinized by U.S. and European investigators for possible price fixing.

The London Metal Exchange (LME) announces the beginning of trading in PP and LLDPE futures contracts by the end of 2004 – a first for the global plastics industry. Specifications have been released for review prior to trading. Could be a preview of an expansion of this concept.

PRICING: BASF raises its prices by €120 per tonne in Europe for caprolactam as well as its Ultramid® and Capron® nylon resins – affecting extruded nylon 6 as well as cast nylon, to be effective July 1, 2004. Also BASF increased European PS prices by €200 per metric tonne due to higher costs of benzene and ethylene, the building blocks of PS, effective 7/1/04 as well.

DuPont Teijin Films Europe boosts its polyester film price by 0.22 Euro/kg effective 7/1/04.

Acrylic resins in the U.S. and in most other global markets have seen continuous increases averaging 18 cents per pound since late 2003 with another 5 cents on the table in late June – tightness in MMA and acetone feed stocks as well as acetone shortages, is blamed for this continuing upward trend.

PVC is joining this upward movement of prices, triggered by higher demand (high definition TV's for acrylic), higher costs and/or shortages of raw materials with supply shortfalls based on several factors including lagging plant capacity additions - and in the case of PVC, an industrial accident shut down significant capacity.

PP resins are following the inflationary spiral we are seeing, across the board for most resins, both commodity and specialty types. These are not unanticipated moves based on oil and gas pricing trends that we have seen earlier this year... and are expected to continue into 2005.

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech announces 2Q 2004 sales and profits, which are up 15% and 25% respectively in year over year results. Sheet products and acrylic rod and tube led the way. Separately, Spartech opens a product development center in Warsaw, Indiana – to accelerate their alloy plastics, product transformations, and innovative new sheet.

RTP Company provides a PC insert which also acts as a light emitting diode to provide greater accuracy in the Ram “Peek-a- Boo” putter.

Named by *Industrial Distribution* Magazine as the top ten largest industrial distributors in North America are:

1. W.W. Grainger
2. Ferguson Enterprises
3. Motion Industries
4. Airgas, Inc.
5. Hughes Supply, Inc
6. Hagemeyer NA Holdings
7. Applied Industrial Technologies
8. Fastenal Co.
9. Wilson Industries
10. MSC Industrial Supply

All of the above had sales ranging from \$4.67 billion to \$845 million and many do have plastic shapes in their product line. Harrington Industrial Plastics (plastic pipe) was #34; Ryan Herco was in the top 50 and Consolidated Electrical Distributors were in the top 10 electrical distributors at #5 – they are purported to be in the hunt for Laird Plastics through their investments in other units.

Mulford Plastics, Australia, having difficulty maintaining their position in Singapore after their purchase of GEPS in Australia, while parent Impack Pratama attempt to go public.

Lanxess, the company spun off from Bayer Group and having most of Bayer's plastic products in its mix, began operating as an independent unit on July 1, 2004.

MCP Engineering Plastics, UK, is established to distribute flouropolymer shapes and machined parts – to include PCTFE, PTFE, PFA and FEP.

GE Plastics, now a unit of GE Advanced Materials is reported to be on allocation for PC sheet and film at its Mt. Vernon Indiana facility. Speaking of GE Advanced Materials(GEAM), in a recent interview, its CEO John Krenecki stated that 2003 profits were off 50% and sales were flat at \$5.2 billion. PC accounted for one-third of GEAM and GE held a 30% global market share.

(More on this interview in a future issue – it foretells much of GEPS strategy for the future).

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

Pfingsten Partners,LLC, an investment group is buying up industrial distribution companies- they now have 38 companies in their portfolio as well as *Progressive Distributor* magazine – seem to be serious about distribution and could be involved in our industry before too long.

Home Depot acquires White Cap Construction Supply in California and becomes part of Home Depot's Supply Division – will a plastic distributor be next since Home Depot already, along with Lowe's, accounts for a significant market share for extruded acrylic sheet as well as PVC flexible tubing and pipe?

Ryan Herco spins off ownership to a group of its executive management team, including Frank Gibbs, Larry King, Joe Nassar and Randy Beckwith. Purchased from long-time owners Brian Bowman and Terry O'Brien. Perspex Distribution, UK, the distribution unit of Lucite International is opening two additional branches in England. Will the U.S. continue to watch for this strategic move?

Laird Group, UK, hopes to have its Laird Plastics, NA, under new ownership by October 1, 2004 with the successful bidder selected by early August – this after the parent put Laird up for sale as previously announced since it was no longer a strategic fit.

**PEOPLE:** Tim O'Brien is new VP Plastics, Americas, at GE Advanced Materials and thus will include GEPS in his management responsibilities. Scott Telesz leaves GEPS, re-assigned within GE – Al Favero is acting General Manager. Pierre Colle is Managing Director, Bayer Sheet Europe. Ryan Herco has new owners – see above.

**INDUSTRY INTERVIEWS:** ... continuing our interview with Rick Wagner, Consultant, Special Projects, Sustaplast.

*Q. What are the two things most people don't want to know about themselves?*

A. Bad breath and poor deductive reasoning capabilities (often referred to as logic).

If it smells bad and doesn't seem smart, don't do it. Make business decisions after input from a variety of sources. Just because you have risen to the level of "boss" doesn't mean you have the best ideas. Listen, listen, listen and after all of that, listen some more. Our instant-gratification society has a hard time with this concept, but a smart tortoise still beats a dumb-bunny.

*Q. How will e-commerce impact our industry?*

A. It already has. Look at Thomas Register. No longer need 15 square feet to store the reference books. Young people are extremely proficient with e-commerce and many of them learn best via this mechanism.

Manufacturers who do not get on this train will be left at the station and catching up will be difficult. Once partnerships are formed, follow up will be e-commerce-implemented. Sure person-to-person selling is still important, but the day-to-day business will be done this way.

Distribution can really take advantage of relationships with their customer base. Strong e-commerce will free up time for the distributor's customers and make purchasing easy. New products, new services, etc., introduction can be done with thousands of customers in a few seconds. Recognizing this, the distributor needs to be organized to handle the responses.

*Q. Will manufacturers sell direct? When and why?*

A. What a sticky wicket is this! As I said earlier, Distribution has pressured manufacturers to get out of the "parts" business. Distribution needs the value added margin benefit to continue to grow and prosper. I don't believe that manufacturing has the ability to sell direct for the most part. Yes, there are individual market segments for specific high-engineering-content products where there are direct sales to certain OEM's, but the vast majority of sales are still bits and pieces. Manufacturers cannot jeopardize their core business with distributors and play the direct game. Only tigers and gators eat their young!

*Q. What are the most significant new products that will impact our industry? Which ones don't we know about?*

A. Like I said earlier, it is not time to close the patent office, but there are so many plastic raw materials available today, that it is difficult to believe much will change in the future regarding stock shapes availabilities. The see-through product development continues more so than stock shapes. I look to "minituration" and composite plastics for great advancements. Metal replacement still is happening so look for how you can participate. Manufacturers and distributors will have to change their outlooks and seek additional broadening of their product offerings. Look outside the box.

For example, I recently read of a lumber yard owner has begun extruding "plastic wood" to expand his product offerings. Keeping alert and abreast of new modifications of old products is really important. Both manufacturers and distributors need to make sure they are connected with "all" industries and look for the next plastic wood. There is no limit to what an industry can produce and sell. The IAPD had recognized this early on that it needed to shift to an emphasis on getting new "players" into the organization. I can't tell anyone where or what the products will be, but the smart money will spend its time on diligent observation of industry machinations.

I remember when we at Penn Fibre began supplying the skate and snowboard industries with sublimation-printable thin gauge strip materials containing a non-woven fabric backing. This was totally new to our "stock shape-production" orientation, but we kept our eyes and options open. And, was this a kick in the pants to our little company!! In our peak year we sold 1 million pounds of PBT to the industry! China has wounded this application, but guess what... that product development opened up other product development doors. The smart money keeps all options open. Would you believe that COSTCO is now selling automobiles!

*Q. Will manufacturers sell more direct? When and why?*

A. As stated above, only in very specific industries or applications beyond the current scope of plastics distribution. But if I were a distributor, I wouldn't worry about it. Here is where partnering is so important. Be on the inside with your supplier(s). Caution: carefully evaluate and limit your suppliers. This applies to manufacturers and distributors alike.

... to be continued in the August 2004 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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