



# GLOBAL PLASTICS LETTER

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**“A World of Plastics Information”**

MARCH 2003

Dear Colleague:

With a war in Iraq looming, here are some of the effects we see on energy prices, interest rates, shipping costs, and prices on most plastics. In a word: upward - in all these categories.

Some further details: crude oil prices spiking at \$ 50 per barrel and then going lower, with all energy prices, including natural gas, gasoline, propane, etc. up double digit percentages. Plastics prices, already trending up, will continue with an increase by years end approaching 10%. All this points to continuing softness in our global plastics economy with no relief in sight until 2004 – the guarded optimism expressed in the last few months seems to have receded and it's 2002 all over again. When will we see the resumption of “normal” growth in our industry? ... All signs point to an extended period of *Stagflation!*

The dollar will stay weak during the war but rally afterward. Importers and exporters in the US and abroad should plan accordingly. Stepped-up military purchasing to build spare-parts stockpiles will offer opportunities in plastics as well as other obvious supplies. Check out the Defense Logistics Agency for purchasing information at [www.dla.mil](http://www.dla.mil).

Uncertainty is the archenemy of growth and will be the watchword for the next several months – a slight bounce back in the second half of this year is a certainty with pent up demand being the driver. But... worries aren't the only malady and a postwar surge will be short-lived with only the resumption of business spending aiding sustained economic growth. Worries about pricing power will persist in the face of growing inflation in plastic resin and shapes markets. Tough competition from cheaper imports and cost pressures will squeeze margins, yet a 3.5% growth (vs 2% now) is not unrealistic. It's not pessimism to recognize continued obstacles to growth – in fact, there's considerable cause for optimism with the plastics economy growing.

Remarkable resilience, despite a string of shocks should lead to robust growth in 2004.

TRENDS: Superdurable “nanocrystals” which increase metal and plastic strength by 300% - will be used in cars, airplanes, engines, computers, machinery and tools. It was an expensive lab oddity for decades...now made inexpensively by Purdue University.

U.S. metallocene and single-site polymers demand to grow over 20% annually through 2006 – will affect polyolefins especially in LLDPE and EPDM in sheet and film form.

The plastics industry in Malaysia has grown substantially over the past three years, to RM6.5 billion. Sheet and film accounted for 90% of exports, with pipe accounting for 7% and rod and tube making up the balance.

Online purchasing activity rises in 4Q 2002 with manufacturers less likely to procure via the Internet than their non-manufacturing counterparts. According to a survey conducted by the Institute for Supply Management, 85.3% (294 organizations that participated in the survey bought indirect materials online) – this compares with 81.9% during 3Q 2002.

Merger and acquisition activity in industrial distribution is expected to rise in 2003, based on some activity that began to take place in late 2002 – this after a drop in activity in 2001-2002 and certainly well below the 1990’s flurry. We also expect some M&A activity in the plastic manufacturing sector (see story that follows on Micarta.)

Some recent distribution industry indices such as the PMI and AMDTA show continued weakness while industrial production showed slight gains from 4Q 2002 figures.

Do you have email addresses for the 20% of your customer base that loves what you do? If not start getting them and ask what could you do for them to make you remarkable in their eyes; such as answering the phone, providing a new product or service – Find things that are “just not done” in our industry, and do them ... Ask “ why not?” For example, Otis elevator transformed the high rise office building elevator industry with a new product. Instead of every elevator operating as a local stopping at every floor its passengers have selected, new systems being installed operate as an express with each passenger being whisked to their floor. The elevator races immediately to the lobby to carry the next passenger directly to the floor selected. This system, “never been done before,” results in taller buildings, fewer elevators for that density of people, shorter waits, and the building can use precious space for people rather than for elevators – a huge win, implemented at a remarkably low cost.

Meet your new competitor: eBay? eBay.com has formed www.ebaybusiness.com, which is now offering the following items in the Industrial Supply/MRO area:

- Safety & Security – 2,466 items
- Motors – 1,183 listings
- Lighting – 515 items
- **Plastics and rubber** – 182 items, including Delrin rectangular bar and Teflon rod

Could be a trend – worth watching and noting its effect on the IAPD’s excess inventory program.

PRICING: Almost every category of thermoplastic resin and shape has been increased in price since the year began – some highlights: PETG – up US\$0.11 per kilogram on resin and 5% on sheet; ABS and PC are up single digits in resin and shape form (PC affected by almost record high benzene prices); PP and PS resin prices up three cents per pound or 28% since 2002 in the case of PS; PE has risen twice this year alone. The most recent precedents for this inflationary price spiral was when a Bush was in the White House getting ready to invade Iraq – 1991. Stagflation indeed!

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Industrial Dielectrics, (IDI) of Noblesville, Indiana, has purchased Micarta Industrial Composites of Hampton, SC from the Nevamar Company LLC of Hanover, Maryland. IDI purchased Norplex in 1996, changing its name to ILNorplex and now is merging its business with Micarta, just sold to Nevamar by International Paper last year. Operations will be consolidated at Postville, Iowa.

Plaskolite, of Columbus, Ohio set to acquire PlastiMirror located in Rahway, NJ, further consolidating its position as the world's leading plastic mirror producer.

GE Plastics India buys Jain Irrigation's PC sheet business for an estimated Rs 40 crores, consisting of two product lines, corrugated and solid sheet produced at the Jalgoon plant.

Exports of 5-10,000 tonnes annually are planned using the Lexan and Excel brands.

W.W.Grainger, already the largest supplier of MRO products has bought Gemplers, a leading direct marketer to the agricultural market with annual sales of more US \$30 million – Will be operated by Grainger's Lab Safety unit.

Klockner Pentaplast is acquiring the assets of the rigid PVC film assets of VPI, formerly operated as Hoechst and American Mirrexx, with sales estimated at over \$75 million annually.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Plastics closes Pittsfield Lexgard operation and combines it with another facility in Nazareth, PA, the home of its Insulgard unit that came along with the Commercial Plastics acquisition. An in-depth analysis of GE in Barron's revealed that GE Plastics is estimated to account for US \$8.8 billion in revenues and \$1.4 billion in operating income, a 16% and 24% improvement over 2002.

Atofina boosts styrene monomer capacity in the U.S. by 8%. GE Bayer Silicones releases new anti-scratch coating, initially for the optical disc industry but eventually for PC sheet products. Quadrant reports strong increase in cash flow for 2002, despite a 4% decline in sales by their EPP/CMS business – QPC/Symalit sales also declined.

Spartech reported single digit declines in 2002 sales, although earnings were up – three acquisitions in sheet extrusion were completed during the year.

Piedmont Plastics has opened a branch in Columbia, SC and is purported to be eyeing others. Modern Plastics, Bridgeport, CT, the only plastic shapes distributor to be appointed a GE Technical Solutions Network member and listed on GE Plastics and GE Polymerland websites, is sponsoring the Juvenile Diabetes Charity Golf Tournament in June 2003 – formerly sponsored by Commercial Plastics in Orange, CT.

PEOPLE: *Clarification* – in our Feb. 2003 issue, we implied that Yoshiaki Fujimori was replaced at GE Plastics, due to weakness in that business ... in fact he was promoted to be CEO of GE Asia. We regret the implication based on usually reliable, press reports.

INDUSTRY INTERVIEWS: Mark Kramer, CEO, Laird Plastics, West Palm Beach, FL.

Mark 49, became CEO of Laird in September of 2002, joining them from the world's largest chemical distributor, the Dutch company Vopak. Mark resides in Atlanta, GA with his wife, son and daughter.

*Q. Can you tell us a little bit about your background, since you are new to our industry?*

A. I spent seven years of active duty with the US Marine Corps in infantry training, going to law school and then as a judge advocate from 1976 to 1983. I joined my family's chemical distribution business in New Jersey that year. We ultimately sold that company to Ellis & Everard (the UK's largest chemical distributor) in 1990. I stayed with E&E for 11 years rising to be President of their \$750M US chemical distribution operation. E&E was acquired in a share offering by the world's largest chemical distributor, the Dutch company Vopak, in 2001. After a year of integrating those two companies I left Vopak and joined Laird on September 2, 2002.

*Q. Now that you've been in the Plastics Distribution Industry for several months, what are your initial reactions as you compare it to your previous business experience in the chemicals industry?*

A. The economic drivers and performance issues in plastics are very similar to those in chemicals and I have found the transition to be a comfortable one. The demographics of the plastics industry are very similar to that of chemicals in that you have a couple "national" players, several strong "multi-regionals" and a vast majority of smaller, privately held competitors. Very much like chemicals, the keys to success here are to insure that profits grow with sales, that you are increasing your asset turns and always keep a close watch on the cost base.

*Q. What is your outlook for the next year? Three years?*

A. The next year could prove to be challenging as external events continue to influence the pace of business and the fortunes of many of our customer's industries. I am far more optimistic about the intermediate term as the inevitable economic recovery gains momentum. There remain a large number of performance related issues within our control, which brighten our prospects for the "3-year" period as well.

*Q. Are you changing the way Laird goes to market? If so, how?*

A. I don't know if it's so much of a "change" as opposed to an emphasis on what the company has done for much of its existence. Laird was created by consolidating a number of privately held distributors. Those companies built their success, and their attractiveness to Laird, by operating close to the customer with extreme attention to communication, perfecting customer service, and coming up with flexible, innovative performance ideas. We will emphasize all of that as the basis for our approach to the market.

*Q. Most distributors, including Laird, have a high employee turnover. How will you change that?*

A. Turnover in general and the number of employees changing companies within the plastics industry is higher than what I saw in chemicals. Regardless, I don't believe you "manage" employee turnover per se. I do believe you create the working environment and conditions you offer employees, and you can certainly impact the quality of the leadership and vision that you bring to them. We will be working at Laird to create the kind of rewarding, performance and growth oriented environment that will attract and retain good people. I'll let the impact on turnover fall as it may.

*Q. What are you looking for in managers? Will you find them inside or outside the industry? How will you recruit?*

A. I look for bright, aggressive leaders that naturally seek out the challenge of leading other people and the responsibility that brings. There is nothing so magical about the distribution of plastics that it cannot be learned with application of effort. There is little that can be done to teach the kind of instincts that good leaders must exhibit. We will be recruiting character, energy and accountability above all else. There are many, many good people within Laird that more than fulfill these criteria. We will also be open to taking on people both from within and outside the world of plastics.

... to be continued in the April 2003 issue of *The 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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™  
is published monthly by Lucitron Corporation,  
P.O. Box 250235, Franklin, Michigan 48025,  
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

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