



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

MARCH 2005

Dear Colleague:

Consolidation cycle continues ... as we enter the last month of 1Q 2005, persistent stories abound regarding consolidation in both the distributor and manufacturer sectors of our industry. With bullish businessmen bubbling with enthusiasm, everything is on the table. Thus, we may see some acquisitions as well as combining marginal businesses that just survived our three-year recession. Some of the weakest links are those distributors owned by public companies as well as marginal manufacturers in the U.S. affected by imports strengthened by the weakened U.S. dollar.

Global economies appear to be warding off the fears of terrorism, high oil prices, burgeoning interest rates and stubbornly high unemployment ... all signs point to an economic growth of 3.5% on a worldwide macroeconomic basis. Hints are abounding for a good 2006 as well. Some exceptions are seen in the euro zone which is in for another year of lackluster growth, although higher consumption and investment in the second half of 2005 should result in a 1.5% growth in GDP – 2006 should mirror global growth.

Projections for manufacturing growth in processing sheet and film are for a 6.5% growth over 2004. Engineering resins are poised for a 4.5% growth. Processors can also expect that with the dollar decreasing in value against other currencies, demand for U.S. plastics will rise in the domestic market, as well as Europe and Canada. This increased demand will take place within a global plastics market that is already experiencing tight supplies due to high demand in Asia and limited capital investment during the recent recession. This scenario will apply greater pressure to supplies and should cause prices to rise around the globe.

TRENDS: Oil demand and subsequent upward pricing pressures (at this writing oil went beyond \$50/barrel), continues to be a troublesome trend. China's and India's thirst for oil could give the U.S. fits in the coming year or two. Making deals with Venezuela, Russia, Iran and others can cause scarcity in oil and gas. Add to this scenario an oil buying spree by China in Canada, which supplies about 17% of U.S. oil imports, as well as China's pending purchase of Citgo from Venezuela which is 15% of U.S. refining capacity - you have the makings of an inflated plastics resin price picture going on indefinitely.

Editors Note: For an excellent overview of this situation with ideas to solve some of the problems, go to: [www.todaysmachiningworld.com](http://www.todaysmachiningworld.com) and look for the article entitled *Oil 101* in the February 2005 issue. Also an article in the *N.Y. Times* of Jan. 9, 2005, entitled “Behind the Bouncing Ball of Oil Prices” by Daniel Altman, offers great insight.

Recently renewed prosperity in the plastics manufacturing business have led to a spate of new materials; some poised to affect future markets with high potential growth. One example is that of **Plastics Superconductors**. These are resins that offer no resistance to electricity when cooled to extremely low temperatures. Magnesium Boride, a bimetallic compound, can carry three times as much current as some metallic and ceramic materials on a weight-for-weight basis. Being developed in Japan, applications abound in electronics, medical and defense markets ... worth watching for commercial development by the end of this decade.

Direct manufacturing systems, already being used by 3D Systems, Stratasys and Siemens, to **fabricate everything in metal or plastics, will cost 50% less in 2-3 years. These laser guided systems, first used for prototypes, are now affordable for finished parts.**

Poland is attracting new manufacturing capacity based on low wages, which although higher than those of China, are low enough to counter the higher transportation costs from China, especially in European markets.

*Medical Plastics*, a new study by the Freedonia Group, examines the U.S. market for plastics in the medical industry, by types including engineering plastics. Demand is expected to grow 3% annually until 2008 with a value then of US\$5.6 billion.

Sales, sales, sales ... that elusive goal in the last three years appears to be re-emerging. Now is the time to discover the tools used such as **leads...which are hiding everywhere**. Some examples: trade show speakers and sponsors; want ads – companies hiring salespeople are usually expanding; press releases in newspapers for new promotions – new hires will probably return your calls; and a quota for leads and a plan to convert them to sales is critical.

Selling online is still viable, with 2 million small and medium size firms expected to participate by 2008 – hosted websites for plastic distributors now cost as little as \$30 per month, in effect acting as a catalog. Order fulfillment adds to this cost but can be outsourced easily... worth trying this alternate marketing effort if not already being done.

PRICING: Continuing the upward swings, polyolefin prices are still on the rise, led by PE and PP. PVC and nylon (based on continuing rises in benzene prices) and copolyester have joined the march toward record levels. With demand from UHMW fibers used for personal protective armor surging, resin prices are under pressure. PC and MMA demand remain high, so see-through prices are poised to rise again this year. Slowing demand from the automotive sector appears to be the only stabilizing factor for these resins in 2005.

DISTRIBUTOR/MANUFACTURER BRIEFS: Dow Chemical develops LESA (low energy substrate adhesive) a PP adhesive that eliminates treating before bonding with metals – 3M has a similar product. **Ensinger** offers PEEK Classix polymer, a medical grade they will market as Tecapeek Classix shapes. It's **Penn Fiber** unit brings out a thermoformable nylon 6 sheet that is 12% glass filled and named Pennite 4512 Also focused on the medical industry, **CYRO Industries** introduces its line of acrylic polymers marketed under the CYROLITE and CYREX compound names.

Some U.S. Plastic Distributor sales estimates are coming in for 2004 and the top eight (in order of descending sales) are: **GE Polymershapes; Laird Plastics (soon to undergo a name change); Piedmont Plastics; Curbell Plastics; Total Plastics; Cope Plastics; AIN Plastics and Professional Plastics.** We estimate their total sales to be US\$1.185 billion.

Top 10 U.S. Electrical Distributors are Graybar; Wesco; Anixter; GE Supply; Consolidated Electrical Distributors (common ownership with Laird); Rexel; Sonepar; Hughes Supply; W.W. Grainger; and Hagemeyer NA. Their total sales are: US\$ 20 billion (est).

Spartech reports 1Q sales up 22%, with earnings down 35%.

GE Advanced Materials announced a jv with China Railway Long Dragon New Composite Materials Ltd to develop passenger train components based on Azdel high strength, flame retardant composites.

Mianyang Longhua, Chinese PC film producer begins to market in Europe.

German manufacturer Freeglass begins producing PC automotive glazing.

Surfboards with PU core and skin of thermoformed PC sheet are introduced in California.

Atoglas, unit of Arkema launches Altuglas® Soft Fluo-FX, an acrylic sheet offering color effects not seen heretofore, including edge lighting and dichroic effects.

Degussa's Plexiglas business unit introduces quadruple skin sheet of MMA, called Heatstop Transparent S4P.

Sheffield Plastics announced the availability of Makrolon PC WG window grade sheet in thicknesses from .750" to 2.000" – heretofore limited to .500" maximum thickness.

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

GE Advanced Materials, Specialty Film and Sheet, has sold its GE Polymershapes, UK assets, the film distribution and slitting business, to a management team headed by Alistair Kennedy. It has been renamed Cadillac Plastic Ltd after a long term supply relationship was cemented. GEPS in Australia and New Zealand were previously sold off and whether this represents a continuing exit strategy for GE is open for speculation. GE meanwhile has expanded its Cartagena, Spain Lexan PC resin plant, with a capacity of 300 million pounds annually – a new Ultem plant is also planned.

Basell, (a jv of Bayer and Shell) will purchase the PP business of Quenos in Australia – Quenos itself was a jv between ExxonMobil and Orica.

PEOPLE: At GEPS, Peter Arvan is General Manager – came from silicones business.

Alro Plastics adds Collette Biloit to its sales management roster. Gary Rogers, vice chairman of GE and former president GE Plastics, joins board of directors of W.W. Grainger. Charlie Crew, who formerly ran LNP, takes over GE's ABS business.

PolyHi Solidur promotes Ron Denoo, Tim Lankenau and Andre Fishbach to management positions. ZL Engineered Plastics names Hilary Daniel to Admin Sales Assistant.

INDUSTRY INTERVIEWS: Michael Batky, Vice President, Business Answers International, a consulting company headquartered in Florida. We interviewed Michael by phone and email at his office in Palm Beach Gardens.

*Q. You've talked about the importance of logistics management with the advent of \$40/barrel oil pricing that seems to be here to stay – why is this so vital?*

A. Controlling freight and logistics costs are vital for distributors and manufacturers as they seek to be competitive and improve bottom line performance. The price of oil has a direct impact on the dramatic increases we've seen in plastics and freight cost expense in 2004. Based on factors such as the uncertainty in the Middle East, additional homeland security measures and the economic development of other countries, especially China, you can be assured that freight and logistic costs will increase. In addition, I am very concerned that due to current global developments, equipment shortages will escalate. Currently, there are worldwide shortages of ocean vessels, containers, tractor trailers and even drivers. I anticipate these shortages will continue to worsen. As a result, moving products from the manufacturer to the distributor, on a timely basis, could become very challenging.

*Q. Does this affect distributors and manufacturers alike?*

A. Absolutely, but it is especially important to the manufacturers. Many manufacturers and some distributors export and import on a global basis utilizing various methods of transportation including LTL, TL, air, ocean and rail.

*Q. How did manufacturers get into the transportation business originally?*

A. N/A

*Q. How much of our industry's movements are LTL ..versus other methods?*

A. Distributor shipments are almost exclusively LTL. Approximately 1/3<sup>rd</sup> of these shipments are mostly UPS and local delivery services. The manufacturers ship both LTL and TL and many of them utilize 3<sup>rd</sup> party logistics companies to keep costs down. The more technologically advanced 3<sup>rd</sup> party logistics companies also provide freight consolidation. The concept of freight consolidation or optimizing truck utilization will reduce the frequency of LTL shipments, thereby reducing freight costs. Whenever multiple LTL shipments can be combined to make one TL shipment, not only is the rate per mile reduced, but the fuel surcharge per mile is reduced as well. There is an industry perception that a truckload (TL) consists of 40,000 pounds. I think it's interesting to point out that the definition of a TL in today's market is *anything* that is lower cost than LTL.

*Q. How do overnight package shipments figure in to the overall picture? What percent of movements of distributors/manufacturers move this way? Is it over used?*

A. Overnight shipments account for less than 3% of a distributor's daily shipments. Manufacturers rarely ship via overnight service. Obviously, overnight shipments are more expensive and are used only when necessary.

*Q. What are some typical savings after hiring a logistics consultant?*

A. It is not unreasonable to expect a 10% savings or more. Approximately 5% of manufacturers and distributor's sales are freight and logistics costs. For example, if a manufacturer or distributor generates \$20 million in annual sales, their freight costs are 5% or \$1 million. Approximately \$100,000 in "hard-savings" could conceivably flow to the bottom-line if a 3<sup>rd</sup> party logistics company manages their freight logistics. In addition, there are "soft-savings" opportunities, which 3<sup>rd</sup> party logistics companies provide. These soft savings include, single source contact via telephone, fax or email on a 24/7 basis, weekly invoicing, auditing, carrier rate contract negotiations, continuous compliant, carrier evaluation, improved carrier relationships, customized management reports, instant rate quotes, tracking and freight claims.

*Q. How does your company fit into this equation? How did you get into this business?*

A. Every few years Business Answers introduces a unique service to assist the plastic shapes industry grow and prosper. For example, in 2000 we introduced SCM Group to the plastics industry and within a few short years SCM Group has become the industry leader for CNC panel saws. Earlier this year we were determined that targeting and helping reduce the skyrocketing costs of freight and logistics would be beneficial to us and of course, our industry.

...to be continued in the April 2005 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.*

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.

Subscription or Editorial Information: 248/258-5657  
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