



GLOBAL PLASTICS LETTER

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Dear Colleague:

Many businesses will pay through the nose for electricity and gasoline – double digit spikes in the month of May will put further pressure on plans to cut operating costs... with phone expenses at historically low prices, with health care spiraling out of control, not many choices in cost cutting – except payrolls.

It has been a quarter century since the plastics industry faced its most difficult challenge: energy shortfall. In 1975, there was a consensus that the main reason for the oil shortage was the Arab oil embargo. Today the concerns about prices and supplies of electricity, oil, and natural gas have many conflicting roots – but the reliability of energy sources can never be taken for granted. Once again the “price at the pump” triggers a change in the business cycle.

Currently, more than two-thirds of US petrochemical industry production is based on feedstocks derived from natural gas – as more is diverted to electricity production, less is available for plastics feedstocks. Thus oil, natural gas and electricity are all intertwined and until an energy policy is developed, we are in for a continuous cycle of price changes in both directions – the business cycle exists!

There was much talk last quarter of “old economy” versus “new economy” – we now are experiencing the “soft economy” – the sudden slowdown globally is upon us and e-commerce will not reverse this trend easily, even if its effect on productivity and efficiency is considerable.

In fact W.W. Grainger, who we have written about extensively in glowing terms, just announced the closing down of three MRO web-sites, retaining Grainger.com only. This portends a trend back to basics – in Grainger’s case using an on-line catalog to sell products via an alternate channel; nothing more. This seems to follow the model expressed by recent surveys showing minimal use by professional buyers.

TRENDS: Consolidation continues – these past months exhibited more in the manufacturing sector (Ensinger/Penn Fibre/A.L.Hyde: Quadrant/DSM EPP) than distribution, which claimed center stage in late 2000 (GE/Cadillac/Commercial). An important book examining strategies for such scenarios is *Consolidation in Wholesale Distribution: Understanding Industry Change*, published by NAW – it shows how some companies have benefited during consolidation by repositioning their functions in the value chain, undertaking aggressive growth strategies. Especially timely in the throes of the current “soft economy.”

According to the *Rauch Guide to the U.S. Plastics Industry*, U.S. sales of plastics resins and materials (including basic shapes) totaled \$182.1 billion in 1999. By 2004, consumption is expected to increase to \$230 billion, or 4.5% annually – faster than GDP, measured in constant dollars. Several technological developments are expected to contribute to growth, including further development of plastic blends, alloys, and copolymer technology as well as further commercialization of metallocene resins, of which we have previously written.

Global PP use alone is expected to rise 7% annually.

Wholesaler-distributors in selected industries have adopted e-commerce, although much of this activity is still EDI transactions (still alive and counted as e-commerce by the US Bureau of the Census). Some further facts from the 2000 Census:

- Excluding automotive parts, pharmaceuticals and computer equipment, less than 2% of wholesaler-distributor sales were via e-commerce.
- Wholesale Distribution represented about 20% of all e-commerce sales.

There’s a growing belief that the web’s information handling capacity will be the overriding benefit to all in the supply chain, rather than online transaction value – especially in these areas:

- Point of sale data reporting - from distributors to their suppliers.
- Online order status tracking – saving valuable time now spent by customer service reps.
- Increased distributors inventory turns – a distributor to manufacturer interface.
- Searchable electronic catalogs – with a phone number to live customer service reps.
- E-mail “flashes” – linking to product and price info announcements.

PRICING FORECASTS: In two words – up/down. Resin prices continue to rise with PE up and PP backing off from announced price increases. PVC (European Parliament votes for substitution of PVC due to concern over phthalates) appears mixed, PS under pressure to retreat from previous increases, PET trending up, while engineering plastics continue to rise in single digit jumps, especially ABS and PC. On the sheet front, recent competitive moves have seen single digit (one case of 10% in MMA is seen) decreases for the first time in recent memory, probably due to inventory adjustments. We foresee this mixed picture for the balance of 2001. Sheet sales are still predicted to rise 3% in 2001 (Source: Plastic Sheet Index – Mountaintop Economics)

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Ensinger acquires A.L. Hyde, (including World Plastics and Plastifab Canada), which follows its Penn Fibre buy-out. DSM EPP renamed Quadrant Engineering Plastic Products, reflecting new ownership. Ineos Group agrees to buy Degussa’s Phenolchemie unit for 422 million euros (\$382 million) adding the number one maker of phenol to its acrylic holdings, purchased from ICI. GE Plastics previously announced acquisitions of Cadillac and Commercial Plastics now officially named GE PolymerShapes (more on this on the next page).

DISTRIBUTOR/MANUFACTURER BRIEFS: Borden Chemical (adhesives and PVC resin) files Chapter 11 bankruptcy. GE Structured Products boosts Lexan PC film capacity at its Bergen op Zoom, Netherlands plant. GE PolymerShapes is the new name for Cadillac/Commercial – they will join IAPD and combine websites into www.polymershapes.com.

Dupont Vespel Forward Engineering announced a new manufacturers rep sales team comprised of 11 companies; three distributors, AIN Plastics, Professional Plastics and Curbell Plastics remain as authorized distributors for Vespel shapes, while the aforementioned rep firms sell parts.

Poly Hi Solidur consolidates operations of its fabrication groups by moving the Delmont, PA operation to Ft. Wayne, IN, although sheet will still be pressed in Delmont. Also inside sales groups will be consolidated in Scranton, PA.

CYRO announces streamlining of manufacturing operations by closing its Niagara Falls, Canada plant (its smallest) and transferring its FF and SDP production to the larger plants in Arkansas and Maine. BP and Eastman Chemical will collaborate in the marketing and licensing of Energx PE technology based on gas-phase Innovene to produce high performance HDPE and LLDPE resins and ultimately shapes. Sumitomo Chemical and Mitsui Chemical expect to sell \$2.44 billion in polyolefins when their merger is completed in 2003 and be called Sumitomo Mitsui Chemical Co.

BASF's Engineering Plastics division reports an average growth of 13% per year, with ABS leading the way at a 22% annual growth, with Asia leading the way. Spartech plans 100,000 square foot Mexican sheet plant and adopts “poison pill” defense against a takeover. Mitsubishi Plastics is supplying polylactic acid-based biodegradable film (PLA), made from Cargill Dow's Nature Works resin for use in a golf ball package for Dunlop and for radio packaging for SONY. Both orders represent about 10 tons of PLA.

Victrex entered into a contract with Ballard Power Systems to manufacture ionomers (proton conductive polymers) for use in electrolytic membranes for fuel cells. DuPont's Nafion is the market leader for this application. IDES announces the release of its newest version of Propector Desktop – software that allows users to search a database of more than 37,000 plastic materials with data sheets, manufacturers listings as well as 100 engineering properties and side by side comparisons of up to 3 materials – see websites of interest next month for more information on this tool.

Quero HJ of Madrid, Spain sets up new venture, R & S International of Texas, Inc. to market its PVC, PP, HDPE and PVDF rod in North America.

Omnexus sets up its global plastics e-marketplace in four languages – English, German, French and Spanish.

PERSONNEL: Keith Piggott, President of Port Plastics (US) and Managing Director of Amari Plastics (UK) resigns – replacements not announced at press time.

Tom Garrett replaces Steve Hulbert as President of Total Plastics – Steve resigns for personal reasons.

Dave Askew appointed sales director at Polybron Plastics (UK sheet distributor); he formerly was with Amari Plastics.

Michael Feld named west coast US territory account manager at Ensinger Inc.

Steve Plumhoff replaces founder Max Plumhoff as CEO of Plastics Dynamics.

NEW PRODUCTS: Plastics for use in outer space will be featured at K 2001 in Dusseldorf Germany in October 2001 - these will include films of polyamide, PET, and flourinated polymers on the International Space Station. Conductive Polymers continue to grow in importance, (remember the Nobel Prize award in chemistry last year) including RTP's inherently conducting polymer compounds. When in Las Vegas, check out the 42 foot high acrylic wine rack, fabricated from sheet.

INDUSTRY INTERVIEWS: Ralph Meyer, President, Meyer Plastics, Indianapolis, IN, is the third generation owner and president of this 6 branch Indiana distributor. We interviewed Ralph by phone and e-mail from his offices in Indianapolis. Ralph is also president of IAPD. He resides in Indy with his wife and 3 children.

1. What is the outlook for your business in the second half of 2001? What are conditions now?

Our outlook for second half of 2001 is better than the first half. Everyone I have talked to suffered in the first half. If volume held then margins have been reduced. It started in Nov and Dec of 2000 then bounced back for Jan thru Mar. It was evident that Wall Street saw a bottom late in March. Possibly we can draw a line in the sand at that point.

2. Do you think the consolidation of manufacturers that we have seen recently will continue? Are there too many PC sheet manufacturers?

Yes, I think it will continue. Last year was the first year I can remember where there was more consolidation between manufacturers than distributors (this assumes you consider the consolidation of the GE, Cadillac, and Commercial a single event).

I'm not sure there are too many manufacturers of PC, but from the competitive pricing on the market there is too much supply.

3. What is the current status of your e-business initiative?

Our current status of our e-business initiative is one of cautious investment. We have seen tremendous amounts of money invested by others in this direction with very little return. Our business is one where we deliver value far beyond the product itself, so the e-business solution must be very sophisticated to be useful.

4. Recent census surveys have shown that in 1999 only 5.3% of all wholesaler-distributors used e-methods, mostly for communications, - do you agree with that? What will be the trend?

I am not sure what relevance 1999 data has today. Do you ever wonder who purchased the first fax machine and to whom they sent their first fax? Every wholesaler I know has email and a web-site. It won't be too long before we are all accepting orders, purchasing, and conducting mission critical processes via e-business.

5. In a recent NAW book, Adam Fein states that as physical distance becomes less important, distributors will need to create a viable intermediary role that goes beyond rapid delivery from local stock - do you agree? And if so, what should that role(s) be?

Plastic distributors are already providing a viable intermediary role. In the February/March issue of IAPD magazine, there was a directory of distributor members that also provided fabrication services. I was interested to find 75% of the members listed. Our intermediary role is providing the service the customer wants beyond supplying the basic plastic shape. Many of the products we sell are light in weight, bulky, and of a fragile nature, so I think in our case, physical distance is very important.

6. How has the GE Polymer Shapes acquisitions of Cadillac and Commercial affected you? If at all?

The impact of this change has had minimal affect on us thus far in the market place. I do think large consolidations like this set up indirect effects causing many distributors and manufacturers to take notice of the change, speculate about the effect, and sometimes overreact to it.

...to be continued in the June 2001 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.

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