



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

MAY 2002

Dear Colleague:

Economic Earthquake - this is what affected the globe during the past 8 months (the rumbling actually started over 12 months ago). Now we're beginning the fiscal and moral clean up, and signs are pointing to a recovery... but there still exists a possibility of an economic “aftershock.” A double trough during a recession is rare yet could occur during 2002 – still a challenging year for most in our industry. Higher energy prices will be a temporary bump in the road to recovery especially in the U.S. – a product of market psychology rather than supply and demand, although raging violence in the Middle East certainly adds to uncertainty. Hold your applause for the superstrong first quarter 5.8% GDP gain in the U.S. – this pace can't last since it was based largely on a marked slowing down in inventory liquidation by business. Spring and Summer growth will probably be more on the order of 3%.

Europe is still slow, but looking up – expect euro-zone growth of near 2% this year, thanks to a surprisingly strong recovery in Germany and rising business confidence – look for 3% growth in 2003 but watch for an interest rate hike by the European Central Bank as early as June. Canada is improving, and Asia is still struggling – Japan will muddle through another bad year with reviving exports (especially electronics) helping as the yen weakens further to about 140 to the dollar by June.

According to GE's Jeff Immelt, their Plastics volume is up 20% from the prior year period (1Q) – this prior to their announced price increases on several resins - the first indicators of recovery in our industry. Additionally, Purchasing Magazine's Business Activity Index (BAI) leaps 20 points in two months -- at 58.5 in April from its November low of 25.5, showing a manufacturing sector that is clearly springing back to life. Strongest rallies are coming in the Northeast and on the West Coast. What's more, the manufacturing rebound appears to be well diversified, with BAI's for electronics, chemicals and metals all in the low 60's – a vigorous level.

TRENDS: New Customer Relations software is a boon for small companies. Salesforce.com, Siebel and Oracle systems gather and assess customer info, using it to automatically target best sales bets and weed out bad prospects. Should be another productivity gain for our industry.

Recent studies have indicated that manufacturer-distributor relationships are poor and distributors are worried about their suppliers selling direct to end users in their territories. Selling direct was selected by 38% of distributors as one of their top three concerns, according to Industrial Distribution's Annual Survey of Distributor Operations ... this threat has a long history – in 1907 it was a major complaint by members of several industrial supply and machinery distributor associations.

However, distributors' concerns today are real as studies show 48% of manufacturers expect direct sales to increase in the next two years because their competitors do it and their customers demand it. It is the customer who ultimately decides and many are now using buying groups who negotiate prices with manufacturers and insist they sell through their distributors.

Web sites of manufacturers are increasingly directing end users to distributors in their geographical area and this newer communication tool appears to be enhancing distributor participation – once believed to be an instrument of selling direct, wrongly judged to be a trend and threat by many including this publication.

Searching for Trademarks for Plastics that are somewhat obscure? A good source is the U.S. Patent and Trademark Office (USPTO). Class 017 (Rubber and Plastics) and Class 001 (Chemicals), where most trademarks for plastics reside in the data base of the USPTO. The web site [www.trademarks.uspto.gov](http://www.trademarks.uspto.gov) is where you will find them. Increasingly this service of searching for a customer will pay off as a value-added initiative.

Demand in the US for engineering plastics (EP) is projected to advance 4% per year through 2006 to 5.7 billion pounds, valued at \$10.8 billion according to Freedonia Group, a Cleveland based industrial market research firm. New applications where high temperature and electrical insulation properties are essential will drive this growth. ABS, nylon and PC were the leading EP's in 2001, representing 74% of demand. Fastest gains are expected for PPO and TPO, with acetal at about 25% of nylon volume.

Phenolic resins demand in North America is expected to reach 4.5 billion pounds in 2006, which is a 1% per year increase, lagging inflation-adjusted gains in the general economy – electrical and electronic segments of industry will account for almost all of this meager growth, a long standing trend.

On the Distribution side, P. Townsend Associates released a forecast for Thermoplastic Resin Distribution. According to the new study, distributor/reseller share of the resin market has been growing and is forecast to grow at an incredible pace, between 9-10% per year through 2007 – now estimated to be at 8.5 billion pounds. Augers well for our shapes distribution industry, unless GE Polymerland skewed the data collected by researchers.

Continuing a consolidation and integration trend in e-commerce providers, Atofina, BP, Dow, ICI and Rohm&Haas have signed subscription agreements with ChemConnect, in an attempt to integrate online negotiation tools in to their sales and procurement processes – hopefully to benefit from timely, reliable market information. BASF, DuPont and GE Plastics had already been using ChemConnect's Trading Center and Self Service Auctions. Readers of this publication may recall that GE Polymershapes used this conduit to conduct a surplus inventory auction some months ago – its success not revealed publicly but thought to be only minimal.

PRICING: Picture is still cloudy with selective increases coupled with continuing downward slides of some resins. Showing upward climb is PP with PE attempting to follow but not successfully. ABS, PC and nylon resins are sliding although an attempt at an increase in PC sheet is in the works at press time with acrylic sure to follow. Worldwide there is a concerted effort to push up prices especially in PS and ABS – when capacity utilization gets up to 80% (now in the lower 70's), look for increases globally as well as more commitments to add capacity.

**MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS:** Quadrant AG is expanding its European pipe and conduit business with the acquisition of some assets of Wavin Swisspipe AG of Subingen Switzerland – a \$3.6 million per year sales operation. GE Plastics buys PC twin wall sheet extruder, Carboron Sdn Bhd located in Malaysia and marketing its products under the brand names of Sinex, Arcolite and Poly-arch. This move increases GE's global market share of the faster growing double skin sheet market and adds extrusion capacity for PC sheet generally in Asia. Spartech Corp. completed its purchase of Industrias Acros Whirlpool, S.A. de C.V. – the jv of Whirlpool and Vitro S.A. in Mexico which is a captive sheet extrusion facility earmarked for refrigerators. It adds \$20 million in annual sales and increases Spartech's Mexican sheet capacity.

Dow Corning (DC) acquires Mutibase S.A. of France – a leading compounder of TP resins and a move away from silicone-based materials for the first time. D-C no doubt followed GE's growth into this market segment with its recent buy-out of LNP and a giant leap to become a leader in global compounding.

**DISTRIBUTOR / MANUFACTURER BRIEFS:** Spartech announces “Class of 2002” Alloy sheet, rollstock and profile alloy compounds, offering distributors a wide array of once custom, now standard products. Eastman Chemical announces 1Q earnings as forecast but down from same period last year on substantially flat sales volume (the 8% increase reflects the businesses acquired from Hercules Inc last year.) Atlantis Plastics, a major PE film extruder, announces 1Q results of lower sales but higher earnings due to accounting changes.

NOVA Chemicals introduces SCLAIR ASTute premium octene copolymer PE resins for premium film applications especially for packaging and laminating. Nova also adds NAS and Zylar – clear, tough acrylic copolymers that deliver high performance for tough transparent and translucent applications.

GE Plastics is using patented technology to color its PC resins with fluorescent dyes to add light piping – called “Edge Glow” – can sheet be far behind?

Mitsubishi Polyester Film LLC (Americas) entering the fast growing copolyester PET shrink film business – expects product by 4Q 2002 with 10 million pound line coming on stream in S.C. (US) plant in addition to 150 million pound conventional PET film lines at same plant. Other major producers of copolyester PET shrink film in North America are Klockner Pentaplast America and Bonfet America.

Grainger improves 1Q earnings in spite of lower sales compared to prior year period.

Applied Industrial Technologies (formerly Bearings Inc.) reports sales down 11.5% for its 3Q compared to 2001. Motion Industries posts a 6% decline in 1Q sales, albeit a slight improvement over past two quarters.

St Gobain Performance Plastics completes installation of 400,000 square feet of Teflon (both FEP and PTFE) coated fiberglass (dubbed Ultralux) for retractable fabric roof for Houston Texas football stadium – DuPont supplied resin.

Primex Plastics furnishes coextruded (Bayer's ASA and ABS) sheet of .188 thickness for thermoformed golf cart top application (Piper Plastics, Florida is thermoformer).

Solvay Advanced Polymers increases Udel polysulfone capacity by 15% at its US plant.

GE Polymershapes closes several branch warehouse locations over last year.

**PEOPLE:** GE Polymershapes announces a management change with Al Favero, formerly with GE Polymerland being named Americas Sales Leader replacing John Kramer who resigned from GE. Favero reports to Gerry Podesta, VP GEP Americas and has Latin American, Canadian and Marketing Directors reporting to him in N.C. (US).

Keith Eitzen now running Port Plastics and reporting to Nigel Palmer at Amari UK.

INDUSTRY INTERVIEWS: Dr. Nicola Sterazzeri, Direttore Commerciale, Makroform S.p.A., Milan Italy, originally a joint venture between Bayer AG and Rohm GmbH. and more recently a Bayer Company. We interviewed Nicola in late 2001 at K Fair, Dusseldorf Germany at the Bayer stand (which was constructed almost entirely of Makroform double skinned sheet).

*Q. What is the history of Makroform? How and when was it formed?*

A. Originally it was Makroform SpA with an extrusion plant in Nera Montoro, near Rome, then a 50-50 jv between Bayer and Rohm GmbH. On 1 July 2000 we became a Bayer company with the acquisition of Axxis from DSM and blended in with Carbolux (which Bayer has owned since 1997) to create the current structure.

*Q. How do you see the business prospects for Makroform?*

A. The first half of 2001 was excellent, however business fell off in the second half and we foresee the second half of 2002 as a comeback period, back to 1Q and 2Q 2001 levels. The Euro conversion and a general improvement in orders should result in full recovery – this in an information age where changes are immediate and economic theory is changed.

*Q. What is your product line and mix? What are the growth rates?*

A. Makrolon® PC represents 70% and Vivak® PETG makes up 30%. In PC, multiwall accounts for 85% and monolithic single skin is 15% - these are European market statistics and the growth rate of multi is 5-8% per year. As you know North American markets have seen smaller growth and penetration.

*Q. What is your relationship with Sheffield? Do you ship materials to each other? What are your geographical spheres?*

A. Sheffield services the Americas and Makroform sells into Europe, with Bayer BGP, Bayer Siewon and Laserline (Australia) handling Asian markets. We ship within our markets.

*Q. How well is Multiwall doing in Asia?*

A. We see a huge potential market in China, especially due to the growth of greenhouse and general building construction. (Editors Note: See GE's acquisition of Malaysian extruder of PC double skin sheet in Merger/Acquisitions above).

*Q. Will the Axxis name continue in Europe? For which products?*

A. No, we will be utilizing the Makroform name for all PC products.

*Q. What is your PC sheet market share in Europe vs GE?*

A. We are Number 2 in PC in Europe with 25% of the market compared to GE's 28% however we are Number 1 in PETG and growing fast with Eastman's Spectar®, where our competition is Barlo.

*Q. Where does Palram fit in to the picture for PC sheet in Europe?*

A. They are strong in Corrugated and Solid sheet and with their new multifoam PVC.

*Q. As you know GE has ventured into distribution of sheet – will you?*

A. GE's move was strategic – Bayer will stay in resins and conversion to sheet and perhaps importing Hygard from Sheffield to serve the Security market being developed.

*Thank you.*

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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