



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

SEPTEMBER 2005

Dear Colleague:

***Breaking News...*** The aftermath of Hurricane Katrina will drastically affect the global economy generally – and our global plastics shapes industry specifically, especially adding to surging inflation. With the core of the plastic resins industry located along the U.S. Gulf Coast, the deleterious effect of this natural disaster is still not completely understood at the time of this writing. We will comment more fully in our October 2005 issue.

Altruistic Assessments Abound ... in this era of global competition, the needs for companies in our industry to evaluate their future positions in the supply chain seems more relevant than ever. With all the cost cutting that evolved in the first years of this decade, the specter of *sudden, sustained service* is real. Outstanding world class service is now a requirement due in part to the fact that it stands out from the competition. Service is a zero sum strategy that strains few assets less the human ones and requires investment in human capital. With the proliferation of new products now abounding – when their impact begins to fade, service will carry the day!

Look for shrinking excess capacity in the global general manufacturing sector to fuel a 7% business spending gain next year, offsetting a drag on spending from slower growth in demand. Capacity use has been on the rise since hitting a recent low of 74.4% in December of 2001. At the end of 2005 it will be 81% and 82% expected as 2006 closes. The highest capacity use rates are in industrial machinery, petroleum, food products, **plastics** and paper – spending will lead in these industries... a good sign for ours. Companies in primary and fabricated metals, computers, apparel and aerospace are under less pressure to expand their operations – plan marketing to these industries accordingly.

Oil...oil...oil – continuing to affect our industry with perceived future shortages and/or higher prices for plastic resins. Demand for oil globally surely tightens supply driving up gasoline prices everywhere – this translates into an inflationary period looming once again. Where once we speculated as to \$50/barrel oil, now many economists are forecasting \$60-70 as a permanent benchmark, affecting every industrial commodity and industry with record energy price impact. Plan for this sustained energy crisis to continue into 2006 and beyond.

Solid economic growth will show up in South America next year – Brazil, Venezuela, Argentina and Chile will benefit most from demand from China. Look at these markets for future growth either as an

exporter or importer. South America is a threat, a customer, and an opportunity and may be a little noticed market while most of the globe is fixing its attention on China.

TRENDS: Skyrocketing resin prices might just be the tip of the iceberg in what's about to become a generations-long struggle for raw materials. With China achieving First World status, its consumption (especially in engineering plastics with a 9% annual growth rate predicted) adds to pressure that the globe's supply of raw materials is limited and dwindling. In our plastics industry, the consequences of this dynamic have caused Plastic resin prices to increase, on average, 40% since 2003. With oil prices passing the \$70/bbl mark at the time of this writing, and no upper limit yet visible, we are in the midst of a global raw materials boom that is likely to last indefinitely. That means your planning, operations and business strategy must assume the continuing spiral we have experienced in the last two years and may no longer result in an endless growth of sales and profits. It may signal the early warning of recessionary woes to surface in 2006.

A second plastic resin futures market began in August , at the Mumbai, India based Multi Commodity Exchange (MCX). Featuring PP and HDPE contracts, this futures trading initiative joins the London Metal Exchange (LME) market which began in May of this year with the same resins. This appears to be the future trend to ameliorating incessant price increases.

Currently, most distribution industry indices for the July just passed, indicate continuing growth, compared to the previous month. The Purchasing Managers Index, Industrial Production rate (vs 1997 average) and Productivity indicators pointed upward slightly. Thus the current business scenario is bright and expected to continue into 4Q 2005 – with a wary eye on 2006.

The European Commission has announced an investigation into an alleged acrylics cartel, with at least one dozen companies involved, including Degussa, Lucite International and BASF – ICI is involved from 1995-1999 when it sold its acrylic business. The period being investigated is 1995-2003 with MMA producers allegedly participating in some form of cartel behavior – could impact acrylic sheet prices for both manufacturers and distributors.

Some eye-opening statistics have resulted from *Industrial Distribution Magazine's* 59<sup>th</sup> Annual Survey – see [www.inddist.com](http://www.inddist.com) . Among the conclusions are that buyers on the Internet did not “disintermediate” (bypass) distributors and that national contracts have impacted a typical distributor's ability to sell on a regional or local basis. Machine shops are the most common industrial sector being sold by most distributors. Other findings concerning a typical distributor's customers are:

- ∑ Industrial buyers feel that distributor prices are too high and too rigid- not fighting hard enough to keep prices in line
- ∑ Many purchasing executives complain about distributor back-ordering – availability?
- ∑ Missed delivery dates – poorly trained help
- ∑ Technical assistance down – product knowledge being sold instead, trained help scarce
- ∑ Communication problems persist – lack of follow-up

Also noted is that last year, 22% of distributors were approached with an acquisition offer but the deal never closed – 23% of these were firms with sales over US\$20 million in sales, while those under US\$5 million were the majority of targets in year past. More than half of those at US\$20 million or more in revenue say they are actively seeking to acquire a competitor.

PRICING: PE (especially HDPE), PP, PS all took an upward bounce in August due to a surge in demand globally and production outages at Nova Chemicals, which declared force majeure in late June. PVC trended downward due to a temporary lower demand for pipe in China and elsewhere.

Engineering plastics remained steady, although a new round of increases is forecast for 4Q 2005 as demand from the Asian Rim puts pressure on demand. In metals prices, affecting HPM's ability to compete for replacement applications, both copper and aluminum remain near record levels. The disruption of supply due to the Hurricane Katrina disaster affecting resin production will definitely affect pricing beyond what was expected in 4Q 2005. We will be commenting on the future pricing outlook resulting from Katrina in future issues, as the picture becomes clearer...and unfortunately less optimistic.

DISTRIBUTOR/MANUFACTURER BRIEFS: Nan Ya Plastics, major PVC sheet and pipe producer, profit drops 18% for Q2,2005, blamed in part on competition from China.

Victrex's PEEK® composite products continue to gain applications replacing traditional metals – new brochure details the wide range of applications at [www.victrex.com](http://www.victrex.com).

Quadrant's EPP business reports slightly increased sales and profits at mid-year; with the effects of their acquisition of PolyHi Solidur yet to produce the synergies predicted. Quadrant's Belgium Technology Center at Tiel also passed a safety milestone – 5000 accident free days! Quadrant's Ertacel stock shapes are increasingly showing up in marine seismic application development.

Saint-Gobain Performance Plastics' Engineered Polymer Products Group and GE Polymershapes have reached an exclusive distribution agreement for Meldin 7000 polyimide for most of the U.S. and all of Canada and Mexico and Latin America.

CYRO Industries' Exotic Edge Acrylite® sheet is showing up in more and more architectural applications in museums and hotels as well as banks – an idea whose time has come!

Simona AG reports increased revenue year-on-year, but profit dropped single digits, blamed on higher raw material costs - with its outlook for 2006 on the conservative side.

Aria Plast is building a PC multi-wall sheet extrusion plant in the Czech Republic – production to begin in December 2005. New markets seem to abound for this growing sheet product globally.

Webasto and Bayer Material Sciences jointly produce a Makrolon® PC sunroof for Mercedes.

Bayer's profit almost triples in 2Q 2005, based on growing plastics demand, with commensurate sales increases led by surging demand in Asia, especially in China.

Village Plastics, Ohio based welding rod producer, extruding close tolerance product ( to 0.003 inches), in a variety of materials, including PVC, ABS, PP and PE in all densities.

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

Chi Mei of Taiwan has added capacity in ABS and started a new MMA plant in mainland China.

Colder Products, Minnesota based manufacturer of tube fittings, with annual sales of US\$ 50 million and 230 employees, has been sold to Dover Corporation – terms and price not disclosed.

Lucite International plans to launch its first MMA monomer plant using new technology – to be constructed in Singapore and due to be on stream in 2007 with a 265 million pound capacity.

It is collaborating with Mitsubishi Rayon in Asia and the U.S. in Singapore and Texas.

Sumitomo Chemical expands its MMA monomer production in South Korea – on stream in 2008.

Kururay Co. Ltd and Mitsui Chemicals dissolves its MMA monomer manufacturing tie in Japan.

The MMA monomer market seems to be in constant flux – however the growth seems evident.

Rhodia divests its European cartridge silicon sealant business by selling it to the Henkel Group.

PEOPLE: John Shepherd appointed President, AIN Plastics, unit of ThyssenKrupp Materials,NA Dalton Smith and Chris Geigner are new branch managers in Georgia and Michigan, respectively.

Keith Smith named Vice President and General Manager of Dupont's Engineering Polymers unit.

In Memoriam... Paul Bertsch Sr, former President of Primex Plastics and cofounder of B&F Plastics, passed away suddenly in Richmond Indiana at age 70.

INDUSTRY INTERVIEWS: ... Continuing our interview with Mark Kramer, CEO and President, Laird Plastics Inc. unit of Blackfriars Co. Mark graduated Bucknell University with a degree in economics and has a JD from Washington University, St. Louis. He spent 8 years on active duty with the U.S. Marine Corps. He spent 18 years in the chemical distribution business, prior to joining Laird in September 2002.

*Q. What's Keith Colburn (Blackfriar's Principal Owner) like?*

A. "Mr. Colburn does not actively participate in the day to day management of the companies. Based on only limited contact, it would not be fair or appropriate for me to offer an opinion. The reputation and industry-leading success of all the Blackfriars companies stands on its own merit and is a testament to the successful operational model run by Blackfriars for many years."

*Q. On CED's website, [www.cedcareers.com](http://www.cedcareers.com), it talks about a history of commitment to distribution, starting in San Francisco in 1957 (the Electrical Corporation) – how will Laird and CED be similar? Different?*

A. Laird's approach is to provide value on a decentralized basis, with a definite customer focus. This of course is most beneficial to the customer balancing cost and value – value being the most important aspect of this commitment to distribution. CED's mission "to be the low cost supplier of electrical materials in each of the markets we serve" will hold true for Laird as well as we follow the tenets of this mission.

*Q. Do you expect any integration between Laird and CED?*

A. No for the reasons I've already stated

*Q. Since CED operates about 500 locations, all decentralized, how will Laird's 49 locations be structured?*

A. We will remain committed to having local branches within regions, in fact we just opened two new branches in Kansas City and Edison, New Jersey. Some regional managers will also serve as branch managers where they are located.

*Q. Will there be any supplier duplications between Laird and CED? Any purchasing power leverage?*

A. I'm not aware of any other than lighting supplies.

*Q. What's the greatest challenge facing the Plastics Distribution Industry in the second half of this, the first decade of the 21<sup>st</sup> century?*

A. As is see it, the industry will continue to define its own relevance as it changes and consolidates. Methods will be challenged in how the customer is served. Up to now the customer has dominated and this will continue to be the case.

*Q. Do you foresee more consolidation in distribution? In manufacturing?*

A. I see more due to the fact that the supply chain is oversupplied and changes will ripple through the marketplace. Manufacturers face overcapacity but they must make a profit to pay taxes, dividends and most importantly, reinvest capital to sow the seeds of new products and the maximum use of their capacities.

*Q. How important are new products developed by manufacturers during good times in the market place?*

A. New products are absolutely essential in a continuing desire to provide relevance in both distribution and manufacturing

*Q. What about price inflation's effect on the buying process? Will it cause a soft patch in 2006?*

A. Shopping and cross checking always takes place during these periods to see if suppliers remain firm in their new price levels. We haven't seen substitution or resistance in buying. Demand in China needs to be watched to see its effect on price inflation.

*Q. What is your outlook for the health of our industry's economy in 2006?*

A. I'm bullish about 2006 and expect we will perform accordingly

*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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