



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JULY 2002

Dear Colleague:

An “anxiety economy” has emerged, plagued by worries over the next corporate scandal and/or terrorist attack. These are unusual times in that many economic indicators point to strength returning and indeed there are real signs of a bounce back in our industry. GE reported late in June that their Plastics business revenues have been growing in the last several quarters – this is their business that is traditionally sensitive to the economy - pointing to some strong rebounds underway.

Reports we are hearing from the shapes industry seem to confirm this cautiously optimistic view; yet the pall that hangs over this could halt the recovery this summer. Thus, a return to normalcy in 2003 looms less than confident in the eyes of most participants - if normalcy can even be defined.

The rising economic stars are currently in Asia, with China showing 8% growth in 2002 (see following story on GE Plastics re-locating Asian headquarters from Japan to China, reflecting this trend); Taiwan expects to register a 6% gain and Hong Kong looks for a 5% expansion in 2003.

Japan is likewise turning around from a deep recession to mild growth and Korea is maintaining a steady upturn, as is Europe. These factors also bode well for the U.S. economy – most of the aforementioned regions are good American customers. The U.S. is in a mild cyclical slump after 10 years of growth and an extreme run-up in equity prices and an overpriced dollar. There is a likelihood of moderate growth, although there always is a risk that pessimism will be self-fulfilling, further depressing business spending and stock prices. Yet the fundamentals, including low and steady interest rates are in place for a continuing gradual recovery and improvement in earnings led by midsize companies with understandable product lines, *honest accounting* and room for growth.

Steady interest rates are good news for businesses – a stable prime rate will keep the lid on costs for small businesses, most of which borrow from banks at rates linked to the prime rate. Steady long term rates will give a boost to companies that raise cash through the sale of corporate bonds. A critical ingredient for a continued recovery will be the return of growth in business spending on equipment and buildings – this was flat in the first and second quarters of 2002 but is expected to increase in the second half of this year. One cloud hanging over economic activity is the specter of corporate honesty, including shoddy accounting and illegal business activity – the restoring of confidence and trust may take some time, once again showing those wide swings of the pendulum of the economy which typifies the American experience.

TRENDS: These times cry out for renewed and aggressive results-oriented management by both manufacturers and distributors. The key to capturing and retaining key customers is to lower their costs of acquisition not just lower their price... apparent buzzwords – but let's examine their real meaning. Consider the changes in the manner in which procurement in business has changed in the last 10 years – many of your customers (both large and small) have focused on improving efficiencies in their inbound supply chain by:

- consolidating suppliers,
- issuing integrated supply agreements,
- installing e-procurement systems,
- experimenting with reverse auctions,
- rationalizing vendors.

The net result is that the supplier who lowers the costs of his customers selection of suppliers; manages purchasing and inventory maintenance, has succeeded in lowering total acquisition costs, not merely reducing prices and thus mastering the channel.

Where does e-business stand at the half way point of 2002? Increasingly, it gives manufacturers an affordable way to take greater control over the information flow to the customer – while smaller customers typically rely on a distributor's inside and/or outside salespeople to obtain assistance in product selection and use, more industrial users are using the Internet to bypass sales channels and directly gather product specifications, material safety data sheets and even price lists. Online technology overcomes the traditional cost limitations of geography and time.

Creative thinking and execution still rules! A well known luxury hotel in California manages to have its staff greet most first time guests by name! How do they do this? ... seems someone scans the reservation lists for visiting executives, then searches a computer or a press database for their photos. The pictures are posted on a special employee bulleting board with an ID and *voila*, Mr. or Ms. Big-in-Their-Own-Mind are recognized and addressed by the sweetest sound in the world: their own name. These types of initiatives can apply in your business as well – building relationships with customers.

Purchasing Magazine's Business Activity Index lost a point in June, (with the percentage of buyers reporting rising orders landed just shy of 50%) after rising strongly for 3 consecutive months. What's more, Purchasing's Forward Demand Indexes which track commodity buying plans for the coming 90 days slid in all regions save the Northeast U.S., with aluminum, copper and brass and tooling slipping the most. Nevertheless most industrial indexes including Industrial production rose slightly in May and June.

PVC demand in the U.S. is projected to rise over 3% yearly to 15.8 billion pounds in 2006, with pipe and fittings accounting for 6.9 billion pounds during the same period based on heightened potable water and drain/sewer applications which together account for nearly 60% of total PVC pipe use (courtesy of Freedonia Group, Cleveland, Ohio).

PRICING: In short – trending UP. Led by PS, PP, ABS and SAN - soon to be followed by HDPE and PU, these increases scheduled for July 1 and August 1 are based on single digit annual growth in demand led by Asia, with little new capacity coming on stream. Right behind the above commodities are PVC and PE, likewise due to increasing demand and some shuttering of capacity due to pressures on margins at most major producers such as BASF, Shell, Basell and Dow.

Continuing polymer plant capacity increases in China for PE, PP, PS and PVC thru 2005 will result in an almost doubling of resin output, yet China will still need to import many basic resins and SHAPES due in part to the unremitting strength of this strongly emerging region. Are you in this market?

**MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS:** Symalit AG, subsidiary of Quadrant AG has agreed to terminate their jv with Georg Fischer Piping Systems, which will now produce and market PVDF pipe itself. This is an approx. US \$10 million sales business which will allow Quadrant to concentrate on its flouropolymer shapes business. Symalit was producing pipe for Fischer up to now. Separately, Simona AG of Kirn, Germany announces a 50/50 jv with Georg Fischer for the manufacture of flouropolymer pipe and molded components – it currently holds a 15% stake in Simona which registered sales in 2001 of 177 million euros; Fischer's piping systems sales were 575 million euros during the same period. Production will be at existing Simona facilities in Ettenheim, Germany.

GE Plastics has agreed to purchase 100% of Zhongshan Plastech Sunsheet Co., a manufacturer of PC multiwall sheet based in South China – it will be called GE Plastech Sunsheet. Once again China is the focus of much future expansion and growth.

Solvay Advanced Polymers to boost polyamide-imide (Torlon®) resin by 30%, planned for 1Q 2003 at its plant in SC (US) – they also operate a Torlon fabricated parts plant in Atlanta, GA.

Bemis Company to acquire Clysar® polyolefin shrink film business of DuPont, a (US) \$100 million business operating from plants in the U.S. and France – primarily for flexible packaging.

Atofina buys remaining stake in Metablen - producer of MBS (methyl methacrylate-butadiene-styrene) additives business from Mitsubishi Rayon, which separately is in talks with Ube Industries of Japan and GE Plastics to form a jv in attempts to consolidate its ABS resin business.

Chi Mei, Dow, and Bayer are the other world wide leaders in ABS production.

...*correction* – in our June 2002 issue we stated that speculation has it that Regal may be up for sale – this is incorrect... our usually reliable sources were not – we regret the error and apologize to Regal and its management and staff for printing pure speculation.

**DISTRIBUTOR/MANUFACTURER BRIEFS:** Ticona, part of Celanese AG, has added capacity for LCP's (4 million pounds of Vectra brand, bringing it up to 13 million pounds of capacity) and UHMW PE (60 million pounds of GUR brand added), at its U.S. plants in North Carolina and Texas, respectively. Sheffield, a Bayer unit, has purportedly contracted with a South Korean producer of PETG resin to supply its needs formerly met by Eastman Chemical (a fallout of the Eastman - Spartech alliance?). GE Polymershapes advertises Insulgard's Lexgard® laminates as a solution to injuries caused by falling glass caused by terrorist attacks, in *U.S. News & World Report*. Insulgard was the former Commercial Plastics division – now we know part of what G.E.'s strategy might have been, but did they know that 9/11 would create a new security market just as civil unrest and vandalism in U.S. cities in the 1960's created the Lexan® sheet market?

International Paper's former Micarta® division (part of its Decorative Products division) that was recently sold, has been re-named Nevamar Company LLC, and is headquartered in Hanover, MD.

Dow and Bayer announced they will not exhibit at the NPE June 2003 exhibition in Chicago, for the first time in over 15 years, although at press time Bayer was re-considering its decision.

Ryan Herco Products of Burbank CA and 21 branches makes Top 100 Distributor list (at # 48 - \$104.4 million annual sales, 260 employees) as published by *Industrial Distribution*. Consolidated Electrical Distributors, Westlake Village, CA (parent of Port Plastics) comes in at #4 with 440 branches, 5500 employees – sales not revealed, in keeping with its typical secrecy.

**PEOPLE:** Jeff Rea, General Mgr., GE Plastics Structured Products, Pittsfield, Mass., leaves GE, as Tom Bouchard becomes head of its new Global Structured Product business, now headquartered in Europe and reporting to Yoshiake Fujimori, CEO of GE Plastics (look for our interview with him in a future issue). Also at GE, Michele Volpi leaves and his sheet merchandising position at Polymershapes is unfilled at press time. Mike Feld appointed Branch Manager, Interstate Plastics, Sacramento, CA. Lou Johnson joins Westlake as New England rep.

INDUSTRY INTERVIEWS: Al Favero, GE Polymershapes Americas Sales Leader, moved from GE Polymerland as G.M. Southwest Sales Region. Prior to that he was Lexan Commercial Director and previously served with Structured Products in a regional capacity. Al is a graduate of the University of Delaware. We interviewed Al by e-mail from his office in Huntersville, N.C.

Q. What will GE Polymershapes (GEPPS) look like in three (3) years?

A. *Our customers will continue to see us as a responsive, customer-friendly plastic shapes distributor, fabricator and film converter with the most comprehensive product and service portfolio to meet their plastic needs. The premier global plastic shapes business, if you will.*

Q. Where does GEPPS fit into the GE organization chart? Vs. Structured Products?

A. *GE Polymerland Americas, led by Vice President and General Manager Gerry Podesta, includes the Polymerland and Polymershapes businesses in North, Central and South America. The creation of GE Polymershapes is a forward integration in the value channel. GE Polymershapes provides the closest link to the end use customer, allowing us to identify emerging needs, fuel product development and fulfill those needs with finished or semi-finished parts through our distribution model.*

*GE Structured Products worldwide has been consolidated to form a new global product company (GPC) led by General Manager Tom Bouchard. Structured Products will be headquartered at Bergen op Zoom, the Netherlands. Both the GE Polymerland Americas business and the global GE Structured Products business report to Yoshiaki Fujimori, GE Plastics President and CEO.*

Q. Will GEPPS form alliances with manufacturers of acrylic sheet? other key products?

A. *Although we do not use that phrasing, GE Polymershapes continuously forms and maintains vendor relationships to ensure our product portfolio is best suited for the marketplace. We want to be sure that we're meeting the objectives of our suppliers. At the same time, if we identify a customer need that we cannot meet, we find the product and company best suited to meet that need. We have and will continue to pursue excellent working relationships with our vendors.*

Q. How will the e-commerce model change, if at all? What % of your business will this represent?

A. *At GE Polymershapes, e-commerce is a business enabler providing both our customers and our employees speed, simplicity and real-time decision-making. I do not see that model changing, but I do see the number of transactions dramatically increasing over time. On the buy side, e-auctions insure that we are getting the lowest cost possible and are able to provide the best value for our customers. On the sell side, [www.gepolymershapes.com](http://www.gepolymershapes.com) operates as a 24/7 branch, providing an efficient and cost effective alternative to the traditional distribution model. As e-commerce demand increases, we will be poised to give our customers the flexibility they need to compete within their marketplace.*

Q. What will be the synergy of GE Polymerland with GE Polymershapes?

A. *The GE Polymerland business is a best practice within GE Plastics. Working closely together, we shorten our learning curve, moving GE Polymershapes closer to becoming a world-class plastic shapes distributor. It also allows us to leverage our resources and share support functions like finance, information technology, human resources and supply chain.*

... Continued in the August 2002 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.

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