



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Interminable Inflation... that is the state of our industry at midway in 4Q 2004. The spate of price increases continues unabated and brings to mind the era of the late 70's, requiring similar management skills to steer most of us in a direction to be prepared for some let downs. Inflation affects the financial performance of most companies in our industry, especially distributors, if inventory and labor (especially health care) costs increase. If the increasing value of assets utilized is not offset by increasing productivity, economies of scale, higher selling prices or some combination thereof, an adverse financial surprise will result. Under low inflation there is a tendency for firms to rely on productivity and growth to offset cost increases – under the current high inflation scenario, sales prices cannot be based on historic levels but on current conditions and the turn around must be swift! Of course customer resistance will be prevalent and selling added value services must be instituted to overcome this current buying environment.

There's another “soft patch” on the way ... early in 2005 the economy will slow due to sustained energy cost increases, both oil and natural gas. For 2005, most economic predictions are for a 3-4% worldwide growth, about the same as 2003 but not as good as 2004 when it ends in less than 60 days. Energy cost pressures also mean business spending can't continue to rescue the economy. Shipping surcharges and price hikes for energy-intensive raw materials plus the cost of the fuel itself, will sap the business investment strength that stirred the 2004 recovery.

Our plastics industry in particular will continue to be affected as it absorbs some energy adders – however aluminum is in the same category and the pricing delta with this metal won't change much. Steel prices won't have much impact on overall inflation, since this has already been discounted over the last 12 months – in fact hot rolled steel spot market prices have climbed from US\$295 a ton in October 2003 to US\$756 a ton in September 2004. By comparison, nylon 6/6 has gone from \$1.26/pound in May 2003 to \$1.38/pound in September 2004.

Energy conservation is now critical for all factors in our industry to practice – from transportation to utilities and throughout the supply chain. Even turning off computers at night will play a part.

Now is also the time to examine freight rate energy surcharges and consolidation of shipments especially less than truckload shipments. We will be exploring this subject in detail in 2005.

TRENDS: Freight rates as noted above have been rising – 20% in 2004 to date with another 10% yet coming this year in 4Q. Of course oil prices and labor costs are the driver (pardon the pun).

During the period of 2000-2003, when our industry was in a recessionary climate, many have examined traditional supply chain relationships and have thrown conventional wisdom up in the air and caused re-examination of all aspects of the industry. A case in point is the role of the independent manufacturer's "rep". Rep agencies are reinventing themselves by providing new services, changing roles, increasing certifications for improved professionalism and emphasizing local market knowledge. Just over the last 10 years, the mfrs rep has gone from a sales type taking on any line and selling to anyone while pocketing a commission, a debatable reward, to an enhanced professional. While there remains much to be improved upon, the trend is clear – the need for justification remains and is being addressed by many in our industry. Some second generations have certainly come forward to aid in this evolution.

Also taking shape is a movement on in the industrial distribution business, one that has yet to show up in our plastics industry but may yet, is the advent of the master distributor, (distributors distributor). They function to add efficiency to the supply chain and aid the larger manufacturers in their efforts to enhance the channels by providing faster service on smaller and emergency orders as well as reducing costs. Look for this to surface in our industry especially with some of the more proprietary products.

The evolution of integrated supply, another late 20th century movement, continues as integrators move further from their distributor roots and closer to a service-oriented business model. These major integrators such as Grainger, Cameron Barkley, IDG and others each manage more than US\$100 million per year in industrial plant MRO spending. They have integrated supply contracts with more than 10 industrial plant locations in total and control an estimated US\$3 billion in MRO spending, including many plastic shapes. They expect the trend to continue with 15-20% increases in 2004 versus 2003 – the three year period from 2001-2003 only resulted in 0-5% growth. Thus many in our industry needs to align itself with this movement, which has legs.

Consolidation in Plastics Distribution seems certain to continue – some new developments in the last 30 days seems to bear this out...

Breaking news... *Piedmont Plastics has reached an agreement in principle with Regal Plastic Supply Company West for a 50-50 joint venture.* More on this in future issues under M&A.

Also Cope Plastics underwent a change in ownership and management effective this month – more on this in the Distributor/Manufacturer Briefs and People sections below.

China is always in the news as having a significant effect on the supply-demand cycle in our business these days. And so we wanted to quantify this 21st century trend with some dramatic and meaningful statistics... China, with its renaissance economy, and its 1.3 billion people (about 20% of the world's population) is now consuming an ever growing percentage of the world's commodities such as: 18.6% of Aluminum (up from 10.3% in 1996); 19.7% of Copper (10.4% in 1998); 26.9% of Finished Steel (16.2% in 1998) and 18.8% of Petrochemicals (9.5% in 1998).

Can't be ignored and cries out for more understanding and participation by our industry.

PRICING: Ever upward with no let up in sight is the forecast into 2005. Most recent announcements are from BASF for their entire engineering plastics line of products, including nylon, PBT, PET, PES and PSU – all double digit increases. PE, PS, PVC and PP were up again in October. In PC sheet pricing, another 7% hike in October was announced by Bayer Sheet Europe, which followed a 15% increase in September. Much of these upward price moves were triggered by feedstock increases such as Benzene, Natural Gas, Ethylene and others which moved up again in October – double digits in 2004 to date and expected to continue well into 2Q 2005 triggered by record oil prices and the aforementioned demand from China. Get out that Managing for Inflation Manual!

DISTRIBUTOR/MANUFACTURER BRIEFS: Cope Plastics underwent an ownership and management change – effective Nov. 1, 2004, the Beam branch of the Cope family bought out the interests of the Kuhn branch and consolidated their ownership position in this long-time privately held distributor with 16 branches and estimated sales of US\$80 million. Gone are Andy Kuhn and Chris Clope and others. Assuming leadership are Don Beam and Jane Jansen, his daughter, as Chairman and President respectively. Other management changes in the People section below.

The IAPD annual convention, held in Las Vegas this past September, resulted in over 700 attendees, a 30% increase from 2003, another indicator of the recovering health of our industry.

Atofina has reorganized into two companies with new names. Atofina Petrochemicals is now Total Petrochemicals USA, a producer of PP, PE and PS – Atofina Chemicals is now Arkema Inc, a leading producer of acrylics (Atoglas) and PVC.

Tufnol, the UK manufacturer and distributor of laminates has been rescued from receivership by its management, now calling it Tufnol Composites and will continue to operate at a £5 million sales level – the buyout was financed by GE Commercial Finance.

Quadrant has added stock shapes, self lubricating and food grade approved in PET, acetal, and PEEK as well as nylon products made by a new low pressure casting method.

At K2004 held in October in Germany, attendance resumed record numbers, after the 2001 setback, with 3000 exhibitors from 53 countries covering 1.75 million square feet, new product introductions from the leading manufacturers abounded. We will report on many of these soon.

Thermotec in Australia starts up with former Cadillac Plastic management and will handle acrylic sheet for the sanitary ware markets as well as PC and PVC.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

The aforementioned proposed jv between Piedmont Plastics and Regal Plastics Supply does **not** include Regal Plastics East or Regal Plastics South ...only Regal Plastics West which has branch locations in California, Colorado, Arizona, and Texas as well as Mexico.

Palram Americas, Israeli corrugated and multiwall PC sheet producer has acquired SPS International, a horticultural sheet distributor in California – the second PC sheet producer to integrate into distribution (GE was the first). Parent Palram Industries Ltd has annual sales of US\$160 million producing PVC, acrylic and PETG sheet in addition to PC. Its most recent installation was the 261,000 square foot roof of the Olympic Stadium in Athens, Greece.

Empire Plastics, rigid calendered and laminated PVC sheet producer, was acquired by a management team called Boltaron Performance Products, LLC and will resume operations immediately after curtailing production late last month. The company began in 1954 as Seiberling Rubber, evolving into General Tire and Rubber and then Gencorp, which Empire bought in 1995.

Chevron Phillips announces its intention to build a new Ryton® PPS plant to start up in 2007.

Solvay introduces new transparent sulfone polymer named Supradel HTS®- exhibits highest heat resistance (491F) of any transparent amorphous thermoplastic polymer commercially available.

PEOPLE: Cope Plastics announces the following new appointments as a result of new ownership changes: Jim McCormick, VP Sales and Marketing (with branches reporting to him; John Pheen, VP Finance and Administration and Mike Tolimieri, Director of Sales. Kevin George, owner, and Alan Sanders, formerly Cadillac, are leading Thermotec of Australia, new distributor/fabricator.

Quinn Group appoints Patrick Masterson Managing Director of Barlo Plastics.

INDUSTRY INTERVIEWS: Mal Binnie, formerly General Manager, GE Polymers Pacific Rim and Cadillac Plastics Group, Pacific Rim, which was acquired by GE. He is now our Pacific Rim Special Correspondent as well. We interviewed Mal by email from his office in Wahroonga, New South Wales, Australia.

Q. We know you've spent many years in the plastic shapes industry in the Pacific Rim....what is your background?

A. After completing my Mechanical Engineering degree I gained experience in various technical/sales/management roles with International companies such as Carrier Air, Westinghouse Sturtevant, American Air Filter and Trane. I then spent 7 years with St Regis ACI in building materials, packaging and plastic containers; eventually as Australian Sales Manager.

Q. *When did you first start with Cadillac Plastic? How did that happen?*

A. Cadillac started in 1971 as a JV between Nylex Corp. and Dayco Corp. Bill Cartledge, who you will remember, started the JV and he was looking for a future GM. It appeared a great opportunity to me and I joined in early 1972.

Q. *When and how did the Australian and New Zealand markets develop?*

A. The Australian market was well developed in the early 70's with distributors such as Bingham Bros (acquired by Cadillac), Mulfords and Plastral. Sales of Cadillac Plastics in 1971 and 1972 were about \$A700,000 each year. 3 Branches and 20 staff.

NZ started for Cadillac by a JV with Clearlite Plastics in 1973 and was led by a stalwart of the industry and original employee of Cadillac USA , George Carlyon.

Q. *How do these geographical markets compare to the U.S.? Canada? Europe?*

A. The Australian market was very profitable, with NZ even greater due to the Import laws. At Sales level and due to population these markets combined were about 10-15% of USA/Canada and Europe. Engineering plastics were always the key to gross margin as customers needed the service of machining and cut to size.

Q. *What were the significant events along the way?*

A. During the early 1980's Dayco USA agreed to allow Cadillac Plastics Australia to develop opportunities in Asia and even though I had registered our business name in Singapore in 1976 we had not been allowed to really work the territory. This provided the real motor to growth for Cadillac and at that time we changed the name to Cadillac Plastics Pacific Group.

Also the assistance of key suppliers such as Mitsubishi Rayon, Poly Hi and others gave us the growth edge in all our markets.

Q. *What about Japan? Other Asian markets?*

A. Cadillac USA in 1975/76 started a JV with Mitsuboshi in Tokyo and a US guy, Ben Shaman, was sent to Sydney for training to be in charge and then to Japan. No matter how hard Ben tried the shoji system in Japan defeated the US model of Cadillac and the operation closed in the early 1980's with Cadillac locked out for 10 years.

But with Australia on the move we opened in Hongkong in 1985 then followed Singapore, Malaysia, Taipei, China..Shenzhen and Shanghai, Korea and finally Vietnam. As we were being taken over by GE Plastics I was working and had nearly completed operations in India starting in Mumbai and Delhi, a fascinating market opportunity for shapes.

...to be continued in the December 2004 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.