



GLOBAL PLASTICS LETTER

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Dear Colleague:

In our newsletter of April 2000 we forecast higher costs and lower margins to put pressure on profits, but we did not see a downturn in sales coming this swiftly. We still stand by our belief that we are seeing two quarters of VERY slow growth more likely – just 1% or so, then picking up in the second half to wind up with annual growth of 2%.

There are definitely trouble spots – investors confidence waning as their portfolio values shrivel in extreme stock market declines; burgeoning high tech inventory at companies that overestimated '01 demand and saw orders cancelled – a manufacturing sector that is losing jobs.

But the case for confidence is heartening – consumers still spending, albeit at reduced levels, and housing starts strong with concurrent building materials - demand for cars holding up. Then there is the hint of improvement ahead for manufacturing with capital spending still up 5% from last year, despite caution in high tech – industrial machinery spending rose 5% in January. Thus we are guarded but confident that all the bad news last month presages the bottoming of the cycle and thus reversing direction for the second half of '01.

Meanwhile e-commerce initiatives continue to suffer from early entry sickness. The number of e-commerce websites continue to shrink with casualties appearing on every industry screen – the consensus seems to be that they were all too early and the big brick and mortar companies learned from the start ups and will mostly be the successful survivors. Exceptions? – those very specialized Private Exchange sites such as IBM, Ace Hardware, and H-P. What about an IAPD private exchange? We should see a movement from public b-to-b to private b-to-b very soon.

Ten predictions for e-commerce:

E-commerce does not die - the need to boost sales and shrink costs offered by the web will continue

Individual e-commerce companies continue to perish

The leaders extend their lead

Managers concede that profits really do matter – if you sell something for zero – result is zero

Customer retention becomes a priority

Customer segmentation becomes a goal – profitable customers – not numbers of customers

Customer service matters – and e-crm is the watchword

Seller increases prices – from zero to profitable levels

Bricks and mortar companies extend their lead

M-commerce (mobile commerce) waits for at least 2002 to show up on the radar screen

The direction of the global plastics shapes industry for the balance of 2001 should start to crystallize in the next 90 days – the prudent management action for now is to be conservative and keep daily costs from rising and if energy costs become the driver, then institute concomitant cuts.

TRENDS: Since so much of today's business decisions depend on swift information, it is well to try to forecast where the information revolution is going - we have compiled a five-year US and global forecast which is yours for the asking via email or via our website: www.globalplasticsletter.com - some highlights: (US figures)

Voice traffic in 2000 – 8.2 billion minutes

Voice traffic in 2005 – 427.6 billion minutes

E-mail sent daily in 2000 – 9.7 billion messages

E-mail sent daily in 2005 – 34.6 billion messages (source: Ovum Research and US Census)

Worldwide b2b transactions in 2000 - \$650 billion

Worldwide b2b transactions in 2005 - \$ 5 trillion

Now to the adhesives business which we usually do not touch on – China produced an estimated 2.5 million tons of adhesives (from a 3 million ton capacity) last year, a 9.2% increase over 1999 and 300% over 1993. This from an estimated 1200 adhesives makers producing roughly 3000 different products – although this is only 7% of the world adhesives market. (Source: Loctite China). Well worth a look if adhesives is an important part of your business's profit mix.

Global consumption of all plastics, which rose 7.6% to 308 billion pounds in 1999 should show a similar growth in 2000 when official figures are released next month – forecasts are for single digit growth each year between now and 2010, amounting to 70% consumption growth. China will be the big driver across the product spectrum and plastics for use in outer space will also grow faster than heretofore.

CIT Corp estimates 6% growth in plastics shipments in 2002 to \$142 billion. In 2000 the US wholesale price index for finished plastics products rose 2.5%, the first increase since 1995 and are forecast to rise at least 1% in 2001 before stabilizing in 2002. Mexico and Canada will dominate in exports of plastics with China doing the same on the import side.

Mega- MRO Distributors such as Hagemeyer NV, WW Grainger, McMaster Carr, and now GE are beginning to extend their influence to serving customers around the world and driving smalls and mediums to servicing in a custom and specialized role, one that depends on individual customer relationships as opposed to customer segmentation practiced by the megas (read as discarding “unprofitable” customers – some small and mediums “dream” customer.) When a EUR 8 billion annual sales distributor (Hagemeyer) coughs, someone else smiles. Opportunities abound!

Know your competition should be the watchword and *How to Excel at Distributor Sales* by David Kahle should be must reading at this juncture.

Another trend to be watched is industrial buying over the internet – according to Jupiter Research procurement managers see little advantage in moving online now and in fact half of those surveyed expect to do less than 20% of their procurement online in the next 2 years. For the purchasing agents, its all about relationships, consistency, quality, and reliability – it sounds so obvious, but many have forgotten it. With many large corporations as investors in private exchanges, however, the pressure will continue to make buying this way work – and within the next 5 years!

PRICING FORECASTS:

PE, PP, PET,PS and PVC prices are trending up – this after many months of announced increases being rolled back. Of course, their raw material components, propylene, ethylene, toluene and benzene have been rising steadily throughout world markets in the last several months and some *force majeure* actions in Europe were contributory.

The imbalances of supply-demand will, in the long run, determine the direction for the remainder of 2001 as will China's capacity and demand growth. As for ETP and HPM materials, the consolidation of manufacturers of shapes will be the determining factor – one that will lead to continuous increases.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Compression Polymers, (CP) Scranton, PA, partially owned by Crane Plastics Columbus, OH, has received a \$70 million investment from two investment groups in CT. CP occupies more than 1 million square feet in three separate locations. GE Plastics acquires some assets of Matra Plast, Canada, adding capacity to extrude PC corrugated, solid, and multiwall sheet under the Verolite and Vistar trade names. This follows the NIM acquisition, and will be integrated into GE in a similar manner. (See *Industry Interviews* on the following page). Does GE's market share in PC sheet now trump Sheffield and how will Bayer react? Spartech and Eastman Chemical form joint marketing agreement to provide Spectar PETG sheet to the N. American thermoforming market. Where does that leave distributors and how does Sheffield's Vivak fit in? Some questions thus unanswered. We will be watching for you.

NEW PRODUCTS: Sensor Products, NJ, introduces Pressurex Pressure Points, tactile force indicating films; when force is applied the film changes color proportional to force applied allowing the user to measure stress and pressure uniformity in a variety of industrial applications. Naltex announces PBT netting; for applications requiring high heat and chemical resistance it is an alternative to nylon netting. Solvay brings out a new HPM, IXEF polyarylamide resin; with combined properties of fatigue and chemical resistance along with very low coefficient of thermal expansion it looks like another product to compete with metals. GE Plastics gives birth to another alloy – this time it's Noryl PPX, a combination of PPO and PP with high heat, high impact strength and chemical resistance claimed. RTP announces nylon 4/6, with good physical properties at elevated temperatures not often seen in nylon. 3M shows its new Scotch Weld Structural Plastic Adhesive DP 8005, said to bond low surface energy (LSE) plastics such as PP and other polyolefins without surface treating. Victrex offers new E-grade PEEK for the semiconductor industry that requires lower ionic levels.

DISTRIBUTOR/MANUFACTURER BRIEFS: DuPont announces cutbacks resulting in approximately 5000 fewer employees – product line paring may be next. GE's merger with Honeywell (affecting our industry's nylon business), may be delayed or even cancelled until at least July, from last month's intended closing, due to European Union's close scrutiny.

Palram Industries began production of PC sheet in its new PA (US) plant, boosting its world-wide capacity to 30,000 tons annually. Barlo Plastics Europe has taken over PCHZ- Akryl of Slovakia, producer of acrylic resin and sheet. Eastman Chemical is producing a new LCP, marketed under the trademark "Titan". Eastman has also formed Asia BizNet Company Ltd in China as a jv with Henderson China Holdings to promote e-business in chemicals and plastics. Atofina has joined with most of the major petrochemical companies by taking an equity stake in Omnexus. Klockner Pentaplast GmbH has acquired the PVDC coated film business of VAW Aluminum AG.

William Andrew Publishing has released two new impressive books: *POLYPROPYLENE* by Maier and Calafut; *FLOUROPLASTICS* by Ebnesajjad – both will be standards for the industry and are available at: www.williamandrew.com.

Quadrant Engineering Plastic Products is the new name for the former DSM EPP, as a result of the takeover by Quadrant Holdings. Chi Mei is building a 30,000 ton/yr MMA plant in Taiwan, becoming exclusive sheet supplier to Japan's Asahi Kasei.

GE Plastics about to name the combined Cadillac/Commercial distribution businesses they acquired earlier – speculation is that it will be GE Plastics Supply or GE Polymer Shapes – but this could not be confirmed. In addition some redundancies may be addressed in April 2001.

INDUSTRY INTERVIEWS: *Jeff Rea, General Manager, GE Structured Products, GE Plastics Americas, joined GE as a design engineer with GE Appliances and rose to corporate audit positions before joining Plastics as Mt Vernon site materials manager, then to general manager of southwest region for GE Americas resins. We interviewed Jeff by phone and email at his offices in Pittsfield, Mass.*

GLOBAL PLASTICS LETTER (GPL): What new products will you be introducing this year?

JEFF REA (JR): *We will be introducing a string of new products in the next six to nine months – targeted toward optical and weatherable PC film applications – last year it was Lexan® T2F for in-mold decorating and Sollx™, an aesthetic film for paint replacement applications.*

GPL: After the Cadillac/Commercial acquisition, what is the status of your captive distribution versus independent distribution?

JR: *GE Structured Products has the same distributors today as it did for 35 years before it acquired Cadillac and Commercial, and will continue to do so just as it will serve all its distributors. As you know, Cadillac and Commercial are operated as a separate entity within GE Plastics, as is the GE Structured Products business.*

GPL: How will the acquisition of NIM Plastics change your distributor and product mix?

JR: *GE Structured Products is retaining the NIM name through GE NIM. The name allows us to offer distributors the value of the GE name, and to leverage the core competencies of NIM, which provides custom solutions to customer extrusion needs. We will continue to market to NIM distributors to maintain and grow the business, especially in films.*

GPL: Is there any chance that you will be increasing prices this year?

JR: *It is our practice not to comment at all on pricing in the media. However, we can say that we have announced no pricing actions to date during 2001.*

GPL: Thank you Jeff.

NOTE: Subsequent to the above interview, GE announced the buying of certain assets of Matra Plast – we thought this significant enough to ask some additional questions and since Jeff Rea was not available on such short notice to update the above interview, we were able to get some answers from sources at GE Structured Products(GESP):

GPL: You recently announced the acquisition of some of the assets of Matra Plast of Canada; what products of theirs most expands your product line?

GESP: *The Verolite and Vistar product lines will expand our offerings in the multi-wall and corrugated market. The business employs 63 people and will be operated as part of GESP's business in the Americas. It is GESP's intention to maintain and grow these products to the market through Matra Plast's current customer base and distribution channels.*

GPL: How does this differ from the NIM acquisition? How is it similar?

GESP: *They are similar in that they have complementary product lines for GESP which help expand the product offering. Both will be operated as part of GESP's business and that we will maintain the current product line of Verolite and Vistar (Matra Plast) and NIMPact (NIM).*

GPL: Why would a GE sheet distributor buy from Matra Plast and/or NIM? How about a non-GE sheet distributor?

GESP: *GE Plastics constantly looks for ways to add value to our customer. The acquisition of NIM and the Matra Plast PC business allows GESP to provide improved customer service and a broader product offering to the plastic shapes industry.*

GPL: What will be your market share vs. Bayer/Sheffield after these buy-outs close?

GESP: *Sorry but market share is not something we can discuss.*

GPL: Will mfrs reps continue to sell the NIM/MATRA lines or will your sales force add these to their offering?

GESP: *Currently only NIM products are sold through mfrs reps and that will continue. Matra Plast sells thru distribution and that will continue.*

GPL: Will NIM and/or Matra Plast distributors also distribute Lexan sheet and film?

GESP: *Currently, we are maintaining our existing channels.*

GPL: Will structured sheet products be offered on the new www.GEPolymershapes.com website? If not what will?

GESP: *When you talk about GE Polymershapes, I expect you are referring to the new combined Cadillac/Commercial shapes distribution business, which has not yet been named.*

GPL: 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.