



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

APRIL 2002

Dear Colleague:

Entering 2Q 2002, we are facing a global economic recovery ready to blossom this spring! This thanks to the healthier US economy and improving conditions in Europe, S. America and Asia (exceptions are still Japan and Argentina). Confidence and business activity is climbing in the US, UK, Brazil, Germany, Singapore, China, Canada and Mexico. Overall, world economies will expand 2% this year, up from 1.5% in 2001; with most of the aforementioned countries experiencing growth rates from 2.5 to 7% (UK and China respectively). Economic indicators are heading in the right direction – conservative forecasts and yet positive!

What does that mean for our global plastic shapes industry? We are getting reports of rapidly rising order rates, larger commitments for inventory orders placed with suppliers, at both the resin levels for manufacturers and shapes levels for distributors. The pressure on profits remains as too many suppliers are still chasing too few customers able to commit for larger orders.

There's one major risk factor that could put a damper on global growth ... a big rise in oil prices emanating from disrupted supplies, if the US gets bogged down in Iraq – and of course the threat of an expanded Middle East conflict could overshadow oil supplies further, especially if there is a realignment of the oil-producing nations in the Middle East region against the anti-terrorism coalition led by the US, UK and their support of Israel. History has shown that an abrupt oil price rally is enough to disrupt the global economy and especially our global plastics shapes industry, even causing a resumption of shortages and inflation – although that seems remote at the current supply levels and almost deflationary pricing. However this time Russia has become a major exporter of oil and could temper the reaction. Even so these are dangerous and uncertain times worth watching although few of us have any influence over the outcome.

TRENDS: Markets for high temperature plastics are growing at a rate of 9.5% per year globally, according to a recent study by Kline & Co., a respected consulting and market research firm. Such strong growth, unusual in today's economy, is explained by continuing innovation in the electronics sector which accounts for 41% of the demand for these polymers. High temperature is defined as those that can withstand continuous operating temperatures at 200 degrees C without distortion and with loads up to 264 psi. Some of the products showing good growth are PES, SPS, PEI, PPS, PEEK, and a host of LCP's.

Much has been written and discussed regarding e-commerce... a look at its progress in the industrial wholesale industry is quite revealing - \$213 billion in sales during 2000, or 7.7% of total wholesaler-distributor sales. (U.S. Census report) – this was a 17% increase over 1999.

Drug, automotive parts and supplies, and commercial equipment and supplies accounted for 63% of total merchant wholesaler e-commerce sales. Excluding these three, 4% of wholesale distribution sales were via e-commerce – the majority were transacted via EDI, according to Pembroke Consulting.

Margin concerns getting to you? Most distributors and manufacturers underestimate that one of their biggest profit-eaters is small orders that cost more to fill than they carry in margin dollars. By addressing the small order opportunity the right way, distributors and manufacturers could double their average operating profitability while repositioning their business for more rapid, profitable growth in years to come, especially in this toughest of years. By ranking customers by estimated profitability, the bottom 40% of all transactions probably account for only 5% of annual gross margin dollars but costing 40% of total operating expenses to fill. Then divide small order customers into sub-categories which need to be upsold or higher minimum orders or higher prices/fees instituted. Only with this careful analysis can this seemingly draining problem be converted into higher sales and profits – everyone's goal!

Value-added services (VAS) are all the rage and the most ubiquitous of business buzz words – but what does it really mean and how can this plan be implemented? A service **not** offered by a competitor is certainly an important principle of VAS. Listen to an example from the hotel industry – attempting to raise occupancy rates at a large Los Angeles airport hotel, which had suffered from a dearth of business travel late last year, its manager tried to come up with something that had not been done. He shook the hotel industry (and raised occupancy rates 400%) by instituting 24 hour check in and check out 24 hours later in order to meet the needs of his customers who were increasingly global travelers, arriving and departing around the clock without regard to time of day and wanted to get into a room whenever they arrived at the airport. Of course he had to revamp work rules to service this 24/7 arrival time but customers responded positively and instantly. This seemingly simple yet untested revolution in the hotel industry is now spreading rapidly. You can think this way in our industry as well and achieve similar successes.

Integrated Supply and the signing of National Contracts will increase in the next few years – one survey indicates that 31% of purchases by end users were made from such a contract and that within five years they expect it to double; thus these customers will be buying over 60% of their MRO supplies (including plastic shapes) in this manner. Likely left out of this supply loop is the medium and small distributor/manufacturer with 3-4 branches within a 200 mile radius. Yet 53% of plastics product makers and sellers are likely to have fewer than 20 employees. What to do?

Join a buying group or create a marketing consortium. Branchising for growth is another possible move to be made. Or perhaps the IAPD should undertake one of these roles. Whichever direction, this is a trend which should be addressed before we see more casualties in our industry which has been blessed with very low failure rates heretofore.

Trend tidbits: PP output expected to grow 5% per year between 2006 and 2010... nylon resin market expected to moderately rebound in 2002 after a dismal 2001, although oversupply persists... HDPE pipe coming back in 2002 due to natural gas distribution applications... massive investments in PE in Saudi Arabia gives it huge capacity and the potential to convert into film and pipe.

PRICING: BASF increases prices (.07 Euro/kg) for acrylic monomer worldwide effective 4/1/02.

BP shuts down PP plants in US (one permanently) thus reducing capacity in an attempt to raise prices sometime in 2002. PVC and PS pricing outlook remains soft, while PE trends upward slightly.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: DSM sells its petrochemicals business to Sabic for E2.25 billion. Sabic, the Saudi Arabian conglomerate, government-owned, is also negotiating for Eni of Italy's chemicals business and now becomes the 11th largest global petrochemical company. Guarniflon USA, Inc., subsidiary of Guraniflon Spa of Italy, opens warehouse for PTFE shapes in Buffalo, N.Y. Greg Tortorello is manager. Mannaflon Inc. opens in Florida, extruding PTFE rod and tube. Michael Manna, formerly with an Italian manufacturer is President. Spartech plans to set up a sheet extrusion facility in Mexico. DuPont and Asahi Kasei announce Chinese Delrin acetal JV with an initial capacity of 20,000 metric tons – eventually to go to 60,000 metric tons, and a 2004 start up is planned. Previously a JV with Ticona, Polyplastics and Mitsubishi Gas Chemical was announced – thus China will be a major global producer of acetal ETP's in just two years.

HT Troplast has announced expansion plans in Russia which will include profile extrusion, polyolefin foam and PVB film. Quadrant Engineering Plastics and Advanced Products form alliance to develop materials and companion seals for severe service applications.

DuPont Vespel partners with Empire Precision Plastics to provide precision molded parts for the Vespel TP line. Separately an ultrasonic motor uses a Vespel part as a wear ring enabling the piezo movement with lower coefficient of friction surface with longer life offered.

DISTRIBUTOR/MANUFACTURER BRIEFS: International Paper ends discussions to sell Decorative Products Division (including Micarta laminates) to Panolam, as previously announced. Albany International introduces Pyropel HD, a high purity thermoset polyimide machining stock with temperature resistance to 550F. Sensor Products introduces software that allows sheet extruders to calculate nip roller pressure on site on an extruder operator's PDA.

NOVA Chemicals declares force majeure on styrene monomer due to power outage resulting in a loss of three weeks production or approximately 100 million pounds. Newage Industries forms new business unit for the medical industries with a line of hose and tubing called AdvantaPure, to include fluoropolymer, silicone and PP products. Newage has 110 employees and \$15 million in sales. CYRO brings out PC film line for ultra-slim optical discs, called Europlex.

NPE 2003 will take place in Chicago – Monday June 23 - Friday June 27, 2003 with more than 90,000 visitors from 100 countries expected to cover the one million square feet of exhibit space - website is www.npe.org. Quadrant EPP introduces Nylatron 703XL, a type 6 nylon, internally lubricated to offer virtually no slip-stick.

STEAG of Slovakia offers surplus CPVC (Corsan) and ECTFE (Halar) surplus sheet stock.

GE Plastics expands PC film called Sollx for automotive body panels obviating painting process.

GE Polymershapes expanding six U.S. regional distribution facilities starting with Dallas, Texas; adding value added fabrication services.

DuPont forms DuPont Performance Materials as a stand alone subsidiary to include all ETP's, industrial plastics and films. Also announces G series fluoropolymers manufactured by a proprietary polymerization process that uses supercritical carbon dioxide as opposed to conventional water-based emulsion methods.

Modern Plastics, Bridgeport, CT appointed authorized distributor for Quadrant EPP in CT, MA and RI (US) branches. Cargill Dows polylactide (PLA) biodegradable resin used for Coke cups at Salt Lake City's Winter Olympic games. PLA is made from field corn and the world's only plant producing this; went on stream this month.

Asahi Glass Fluoropolymers USA Inc. has announced plans to increase Fluon PTFE dispersion capacity at its NJ plant with start-up scheduled for 2Q 2003.

PEOPLE: Mike Lenthall of Port Plastics (a unit of Consolidated Electrical Distributors) resigns; Keith Eitzen succeeds. Vin Malerba, formerly of Commercial Plastics, joins Modern Plastics in CT. At GE Plastics, Andre Horbach to lead GE Plastics Europe as President, responsible for GE Polymershapes. John Dineen is VP Global Lexan and Gerry Podesta is President GE Plastics Americas, also including GE Polymershapes.

INDUSTRY INTERVIEWS: ...concluding our interview with John Kramer, USA Business Leader, GE Polymershapes.

Q. In January 2001 we interviewed your former president, Greg Adams. As a follow up to that we would like to update the progress...where do you see the biggest growth coming - geographically and in product lines?

A. We continue to see opportunities to expand our capability not only in the U.S. but also in the Pacific, Europe, Canada and Latin America. We're still positive on the growth potential in the U.S. and as our Chairman Jeff Immelt has said, we think the real challenge will be to prepare for an eventual rebound in the economy. As for growth in product lines, there certainly is a growing demand for LEXAN® sheet, and for security glazing products, which in our case we are meeting through our INSULGARD® laminated door and window line that includes LEXGARD® Laminates.

Q. Was there significant growth in sales online as forecast? Productivity gains?

A. Yes on both counts. Our www.gepolymershapes.com website went live last July, and grew from zero to several million dollars in sales in the second half. Internally, the installation and broader use of automated inventory, finance and administration systems throughout the business also led to measureable productivity gains. Coupled with process improvements from applying six sigma analysis, the combined savings have helped us weather the tough economy — and at the same time allowed us to reinforce our frontline sales presence.

Q. Have the extranets been successful in serving large customers? How?

A. We've actually moved our extranets to more of a single web entry point strategy, whereby the large customers can use our main site, but quickly move to customized product screens and order entry. These customers appreciate the 24-7 availability, the depth of technical information and the ease at which they can track their order progress.

Q. Has your value-added fabrication and film business grown? How?

A. Yes, our fabrication, forming and film conversion continues to grow as customers focus more on assembly of finished goods and not large-scale fabrication or film conversion. We have expanded our fabrication capability at every regional distribution center to reduce cycle time and shipping fees for national customers. We've also made some major investments in our film conversion business.

Q. What has changed in the sheet distribution business in the last year?

A. A number of factors have changed the environment, starting with a decline in the rate of growth seen by the industry through the '90s. There's also been a change in what it takes to be successful and profitable — we all need to have a stronger focus on new customer acquisition, which comes from an across-the-board focus on promoting the use of plastics in new applications. We also look for more new products from suppliers to help increase demand.

Q. Have other distributors begun to emulate your model? How?

A. I can't speak for others, but I know our model is forward-looking and we believe it gives us a competitive edge. We've benefited tremendously from our affiliation with GE Polymerland, which really set the standard for resin distribution globally, and from GE Supply, which is a leader in electrical products distribution. As we state in our GE Polymershapes ads, our focus is on "setting the pace" in customer service for this industry.

Q. The timing of your first year with the combined businesses saw a recession and a war — what is your outlook for 2002 and beyond?

A. In retrospect, we certainly could have chosen better timing launching a new business, but I'm encouraged that even though it's been a tough year with many difficult decisions, we were still successful. I think that bodes well for when the economy turns around. As our Chairman Jeff Immelt has pointed out to analysts, plastics is a cyclical business and he'll be watching our order rates carefully for signs of recovery. Our business plans are based on 2002 remaining a tough year. If it improves any earlier, we'll be that much more successful.

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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