Mel Ettenson's GLOBAL PLASTICS LETTER
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"A World of Plastics Information"

April 2003

Dear Colleague:

Wartime recession leading to stagflation; the direction of the global economy is uncertain; complicated by ever-growing price and supply turmoil of oil on world markets … and you have a brief summary of the state of our sector of the plastics industry. Truly stressful times for managers of the plastics semi-finished products industry unlike any seen in the almost 60 year history of our plastics world.

Embroiled in the need to cut expenses, drive sales upward and maximize profits against a backdrop of reduced demand, increased competition and rising energy costs, we would not be surprised to see some casualties this year, both in the manufacturing and distribution sector.

At this writing, a prolonged war in Iraq is adding to pressures being placed on forces impeding an economic recovery. We are hearing mixed results of 1Q 2003 in our industry – some are benefiting from the slump in other sectors with one company's loss another ones gain. In distribution this can serve as a steadying effect on some company's march to recapture 2000-2001's momentum while in the manufacturing sector this results in share shifting and of no help to recovery.

Some other thoughts that relate to the state of our share of the plastics industry as we enter 2Q 2003. With the advent of a continuing round of price increases being meted out (and in most cases justifiably so) by manufacturers, only unit sales not dollar sales will show a true picture in 2003 of the true march to 2004's alleged boom times. Weighing heavily on how 2003 will play out is the weakened state of many companies who have endured almost three years of little or no growth after experiencing decades of double digit growth. The younger generation now coming up in top management at distribution organizations will be hard pressed to equal or better their predecessors performance. We believe a round of mergers and acquisitions (both for manufacturing and distribution) is poised to happen, with low interest rates as a catalyst and survival of the fittest the watchword. Would that there would be adequate capital available for such a renaissance in the M&A business – then we would see the darwinian process of survival unfold, thus balancing the current apparent oversupply of capacity.

TRENDS: War has enough to answer without being blamed for problems of its own making – thus we must make every effort to not distort our current business problems as war - caused. Yet it isn't the fog of war that has distorted the vision of monetary policymakers. It's rather the fog of finance, particularly the legacy of the U.S. stock market bubble. The truth about the three year decline in stock markets – and yes our industry's health, which seems to have a correlation to the aforementioned markets is that business spending on new plant and equipment has been weak for lo these same three years and caused the recession that began in March 2001. Yet the cost of war is a continuing problem for the global economy – don't believe the market: - war won't help the economy, with certain exceptions in the defense industry which will impact only several distributors and their manufacturer partners.

Another important trend in the U.S. that will affect profits negatively, especially in distribution, is a Labor Department ruling that requires employers to pay overtime to low income employees who put in more than 40 hours per week. But some white-collar professionals, now receiving overtime pay will lose it. We believe this change will be in effect late this year and would be well worth reviewing the new regulation for compliance and economic impact – just when you thought cost cutting had been maximized, now coming along is a cost adder for distributors.

Is your web site accomplishing your objectives? Take a look at some common mistakes made on distributor web sites that fall into three categories: 1. Boring brochure pages with lists of product lines and the history of your company. 2. Professionally designed pages that look good with 50% page design and 50% visual and 3. Customer friendly and interactive allowing customers the ability to do everything on your web site that they can do over the phone – a true alternative channel which is what the web has evolved into.

Since most web sites fall into category 1 and should be in category 3, herewith some specific tips to do just that:

1. Get a domain name closest to your company's name, not AOL , net, or hotmail but a true dot com domain name. Also keep your URL simple – avoid underscores, dots, hyphens etc.
2. Get rid of links – with search engines such as Google finding URL's is easier than ever.
3. Make it easy for people to find you – customers use the web as a giant phone book so display your phone number and address on each page. Also improve your search engine rankings by using phrases that searchers are likely to type in and be sure to refer to your geographical location and list your products and services individually. Get listed in directories such as www.yahoo.com for even additional exposure.
4. Ask for help – go to professionals with a combination of programming knowledge and graphic design skills.
5. Don't assume " if you build the web site, they will come" – a web site alone will not generate traffic but it is simply another marketing tool. Incorporate your web address as you would a phone and fax number.
6. Track activity – a counter at the bottom of each page can track the number of hits to that page, not just the hits per URL. For an example go to: www.smarterdistribution.com. (Excerpts from above article courtesy *Progressive Distribution* and Robert S. Boyles, Jr.)

Italian plastics industry suffers in 2002 – plastics consumption in Italy grew at its lowest rate in 10 years at 1.4%, with PP showing the greatest growth and PVC and HDPE growth being minimal. These results are somewhat echoed by most EU countries and the Asian results are just coming in with preliminary indications that will exceed those in Europe

Large pipe demand in the U.S. is projected to expand 2.4% annually to nearly 200 million feet in 2007, valued at $7.6 billion.

The ease of paperless e-mail has sidelined the forlorn fax, which will end up like the radio with email being the equivalent of television which didn't kill radio just as e-mail won't completely kill the fax. From 1998 to 2002 fax transmitted pages fell 50% from 350 million to 170 million with fax machine sales peaking in 2000. Of course a signed fax is accepted as a legal document while email 's electronic signatures are not as secure. Trend is definitely in favor of email continuing its growth, supplanting fax transmission. The phone? Jury is still out on the future trends for telecom.

PRICING: In a word – upward and trending in that direction as the correlation with oil prices continues as it did in 1973 and 1991. No question that feedstock costs such as natural gas, naptha and ethane have a causal effect on basic resin prices which translate to shapes pricing on a direct basis. This should continue throughout 2003 with no relief in sight.

DuPont Engineering Polymers is raising prices by 150 Euros a tonne, for PBT, nylon, Delrin in Europe, effective April 14. This follows a similar increase last September. Similarly PE, PP, PVC and PS are all going up with so much pressure on costs enhanced by little new capacity. Yet some new capacity is planned for the next five years, especially in the Asian polyolefin sector.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Spartech acquires all the stock of Polymer Extruded Products (PEP) of N.J. PEP has annual sales of $21 million, producing weatherable films, laminates and extruded cellulosic shapes and profiles. This will add to Spartech's capabilities in capstock for its sheet product line.PEP emerged from a former Celanese facility.

Plaskolite completes the purchase of PlastiMirror Inc. of Rahway, New Jersey enhancing its manufacturing capabilities in acrylic and polycarbonate mirror.

DuPont's Engineering Polymers has acquired Eastman Chemical's high performance crystalline plastics business including Titan LCP and Thermx PCT and EG.

RAG group of Germany is selling three businesses operated by Ruetgers and includes Bakelite, Isola and HT Troplast. RAG is jointly owned by E.On, RWE and Thyssen Krupp, which hold an interest in DeGussa.

British Vita buys Synco (colors and additives)- following the Spartech model?

Sumitomo and Mitsui scrap their merger plans.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Plastics (GEP) makes key management changes replacing Gerry Podesta as President, GEP Americas (Podesta has left GEP). New appointments at GEP Europe and Asia were also announced. Also John Krenicki, CEO GE Plastics, has announced plans to key in on automotive markets as well as growing its business along several product/industry lines – " I don't want this organization to sell all products like they were created equal" – perhaps sectors and/or businesses are also not created equal in this year of rising prices … rising feedstocks converted to resin price increases.

Also at GEP, IMD applications for its capped co-extruded Lexan SLX PC films are near commercialization and will be shown at NPE 2003 – enhanced weathering and scratch resistance are promised, with initial emphasis for automotive bodies as well as other exterior applications.

Bayer Polymers (parent of Sheffield) upgrades research and development capabilities with a multi-million dollar investment at its Americas headquarters in Pittsburgh.

INDUSTRY INTERVIEWS: … continuing our interview with Mark Kramer, CEO, Laird Plastics -

Q. Are you emphasizing training more? Product or Sales?

A. Knowledge management and the leveraging of what we collectively know is critical to the success we seek. Training is one of the most important activities that we will employ to expand the skills and knowledge of our employees. It is not a project, but rather a process. It involves not just what the company does for the employee, but the initiative that the employee takes on his/her own to build professional skill and competence. We will make much greater use of the internet and computer capabilities in bringing real-time training to our North American business.

Q. You're considered # 2 in the industry, just behind GE Polymershapes, whose sales have been dropping – do you plan to catch up? How?

A. We're very respectful of the size and competence that GE brings to the market. While our plan is certainly to grow both the top and bottom lines of our company, our focus will be on the quality of our growth against our own expectations. We'll simply have to see whether, as events play out, that leaves us still #2 or perhaps #1.

Q. What are your plans for e-commerce and/or b-to-b business on the web, if any?

A. Many distributors participated in an over-reach and over-hype of the internet in the late '90's in my opinion. At the end of the day, the internet is another way to touch a customer, currently no less or more important than the phone, fax, or personal call. What the internet does offer, as we all go along, is a very cost effective way to communicate and a very simple "self service" capability for those customers to whom such flexibility and convenience represents value. I don't see it fully replacing any other current means of selling. As we approach more and larger customers, the ability to transact with Laird via b to b will be important and we are working on an expansion of our capability.

Q. Your catalog is on a CD-Rom, how effective is this in obtaining new customers and will you go back to printing a catalog (priced or unpriced) as some other have?

A. The CD has proven to be effective as a communication device for our catalogue items. It is difficult to measure the role it may or may not have played in actually capturing new business. In reality the CD, like any hard copy media form, is subject to both overruns, obsolescence and out-of-stock problems. We are moving to make offerings such as our product listing web-based so that customers with computer capabilities can have access via this method if desired and hard copies will be easily accessible in the field via download and printing.

Q. Will Laird get back into the manufacturing business?

A. Laird's competency is in the efficient distribution of plastics and not in their manufacture. We so much as recognized this in the sale of our Continental Acrylics Division back in 2000. I would not see us venturing back into this sort of manufacturing again.

Q. Would you acquire GE branch locations if they became available?

A. I would not want to speculate on the strategy or possible actions of a competitor. Laird remains focused on growing our company by any and all possible means. We would tend to be concentrating on new geography that we do not currently serve or on product lines and related services that could enhance our offering in our key markets.

Q. Will the new Piedmont/GE Lexan sheet and film alliance impact your supplier strategy since you represent GE in Canada with similar lines?
A. Piedmont's decision to source product exclusively from GE will not have any direct bearing on our supplier strategy. We have long established relationships with key vendors that we will look to enhance and grow consistent with our own growth plans. The move may be debated as further indication that our industry will be characterized in the future by increasing integration and mutual dependency between distributors and their key vendors – an assertion with which we would generally agree.

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1. *The value of exclusive supplier agreements for distributors*
   Taking on a completely exclusive arrangement is a very serious step that involves great obligations on the part of both parties. I don't see this as becoming the dominant way that plastic distributors will buy their product. In reality, it is difficult for any one distributor to capture the extent of the market that most producers would like to reach and, in sourcing on an exclusive basis, the distributor eliminates one of their key values to the market – that of multiple source options in the event of supply or market disruption. I do think that distributors will have to pare down the number of key suppliers they work with in order that sufficient economies of scale exist to attack the multiplicity of investment in the current supply chain. Producers, distributors and customers cannot all maintain storage, transportation and product handling assets in close proximity and expect to reap sufficient profits from the chain. More significant relationships with fewer suppliers will allow this area to be fully mined for increased efficiency, lower total investment and greater reward for all concerned.

2. *Our views on the best growth opportunities*
   I think the manufacturing sector of the US economy bears very close watching in the near future. It seems increasingly that the manufacturing and assembly functions are being moved to overseas locations. This suggests a growth opportunity in the supply of raw materials in those emerging and favored production sites where the supply infrastructure may not be set to handle the increasing demand. It also suggests that the growth in the United States is more likely to come from those industries that tie to the increasing service, financial and retail sectors. Graphics and building supplies would be two obvious areas that come to mind.

3. *Biggest problems we face over the next five years*
   Consistent with the answer above, anticipating the shifts in industrial demographics and correctly choosing where to invest/follow, and where not to, will be a major factor in our growth and success. As always, attracting and retaining the best people to our industry in the face of apparently higher visibility alternatives will be a crucial challenge. As part of a public company, we face the ongoing challenge of demonstrating consistent, exceptional returns and clearly explaining our investment value to shareholders who have many options in placing their investments.

4. *What I'd be doing if not this*
   The aura of participating in a family owned, privately held business drew me out of military service. Had it not been for that opportunity, I probably would have made the Marine Corps a career and would just now be starting on whatever "second career" twenty plus years in the Marines would have led me to.

We interviewed Mark by phone and email from his headquarters in Florida.

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