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

APRIL 2005

Dear Colleague:

Business Cycle is Back! … and so business has improved, yet inflation has returned; and with it the seeds of a downturn – just as we all were benefiting from a two year bounce back. It's the revenge of the business cycle – with interest rates at multi-decade lows, and with a massive fiscal stimulus, and after driving down the dollar for the past three years, … how can you be shocked that there is an upward shift in inflation?
A stronger economy and robust demand have made it possible to pass on increased costs for most businesses in our industry – yet this cannot go on indefinitely and thus we are looking at a slowing of growth in 2006.

Just how high can oil prices climb? Not much on average. Plan on prices ranging from $50 to $60 a barrel through June, fueled by unexpectedly strong economic growth in the U.S. and Asia and by Mideast politics. By fall, prices should drop to about $45 as economic growth in the U.S. and globally, eases and gasoline demand takes its seasonal dip. Tight oil markets, however, will last until at least 2010, moderating a bit as China's economy slows down and oil producers add capacity after long under-investing. Fuel efficiency gains, finally, from the automotive industry should also affect the equation. What's the MPG number on your car?

Also reacting to higher fuel costs is the outlook for higher costs for firms that ship by truck during the peak season of July – October. Capacity just hasn't grown over the past five years as demand has surged. Signing contracts now may help limit disruptions and slow price hikes which will average 15%. Go with bigger carriers who have more flexibility. Look for slowdown bottlenecks in West Coast U.S. cities as well as Texas, Chicago, Cleveland and most Eastern Seaboard Cities. (See our interview with Michael Batky on this subject). Our industry should expect freight problems to last many years as demand for truck transportation continues to grow at double digit rates.

Interest rates WILL continue to climb… the question is, how much and how fast?
Expect the trend of small, frequent hikes to continue… unless inflation pressures accelerate. The weak dollar, coupled with high raw materials costs, will be an upward mover of inflation increases. Metals prices, both ferrous and non-ferrous will continue to edge up over 2Q 2005.

TRENDS: North American Plastics resins growth surges in 2004 – an 8.1% increase over 2003 to 115 billion pounds. Global growth was 5% led by China. This according to the American Plastics Council.
Plastic Pipe will expand 5% annually to 42 million feet in 2009, in the U.S., 20% of all large diameter pipe.

"Just one word – Corn!" … Plastics derived from corn, polylactic acid (PLA), are finally growing as oil prices spin out of control.Oil is the bedrock of the global plastics industry which uses it to produce 450 billion pounds of plastics annually. NatureWorks, subsidiary of agricultural giant Conagra, (which bought out Dow's jv interest) has pioneered turning corn into plastic packaging. It's fully biodegradable, and now lower cost than its petrochemical-based cousin, polyolefins, yet equal in performance. With the cost of polyolefins up 40% over the last 18 months, PLA pricing is down 65% - DuPont, Mitsubishi Chemical and BASF are already in the game. To date 300 million pounds of resin have been produced, with the outlook very upbeat.

The world's thinnest UHMW-PE film has been produced by DeWal Industries – producing 25 inch wide in a gauge of 0.002 inch thick, in natural and black, and function as substrates for pressure sensitive tapes.

GE Advanced Materials and Polymershapes have introduced Lexan TOR-GARD BAL 40 window glazing and framing that passes Government testing for use in community shelters to resist tornado strength winds (up to 250 miles per hour) in addition to UL Level IV ballistic rating. Protected side of window is a mar resistant Lexan sheet with the exterior protected by glass surface.
Potential applications include emergency call centers, police and hospital emergency facilities and critical government infrastructure buildings, including communications and data centers.

Distributors must be ready for "Life after Lean", as manufacturers emerged from the recession stronger than before and lean manufacturing takes the credit. Now those same manufacturers are applying lean to the supply chain, looking to build partnerships based on finding common ground for mutually reducing costs and increasing productivity.
Distributors should stick close to their most innovative and creative manufacturers as well as to establish new opportunities for partnering. Everything is on the table!

Persistent stories coming out of the UK have Lucite International to be put up for sale.
While these indications are consistently denied, the fact remains that their private equity owners are in for the shorter term investment opportunities, and so as the timing may play out, anything is possible… worth watching closely. Some potential suitors are Dow, Mitsubishi, Petronas as well as others in the U.S. and Europe.

PRICING: Some basic commodity price changes this month compared to March 2005 are: Benzene… up 18.8%; ethylene… down 7%; HIPS…up 6.6%; PVC…unchanged; Aluminum…up 2.2%; Copper… down 1.3% ; natural gas …up 20.2% and steel sheet…unchanged.

Meanwhile, of direct relevance to our industry, is the nylon price increase of 15 cents per pound for both type 6 and 66, effective April 15, 2005, in North America as announced by Rhodia and BASF in Europe and North America. Basell ups PP and PE prices in Europe on April 1, 2205.
Dow announces a 10 cents per pound increase for acrylic monomer products, effective April 1, 2005. Takiron and Mitsubishi raise PVC thick sheet prices by 12.31% in Korea – Tsutsunaka holds out and will pay dumping duties.
After a pause, most thermoplastic resin prices resume climbing, including PET as well as most of the polyolefins. ABS and PC are still on an upward spiral, as demand coupled with higher feedstock costs contribute to the inflationary spiral that both inflates manufacturer and distributor earnings. Planning now for a leveling off of this pernicious trend will allow most companies to ward off year to year comparison disappointments that will surely occur in 2006.

DISTRIBUTOR/MANUFACTURER BRIEFS: CYRO Industries announces new ACRYLITE® EndLighten acrylic sheet at International Sign Expo – it's an edge lit acrylic sheet allowing LED lighting of thin extremely bright signage. Also new is its family of Trend Textured Acrylic Sheet, including raised squares, diamonds and new tactile surfaces.

American Plastics Council launches a website to dispel Plastics Email hoaxes and rumors… www.PlasticsMythBuster.org is the url.

Bayer Films Americas unveils it's Makrofol®DE PC film for use in automotive dashboards – the .375 mm parts replace conventional dashboard materials allowing an all film substrate.

Perspex Distribution, UK, unit of Lucite International, opens its third service center in Tamworth, Midlands region – joins existing centers at Chelmsford and Blackburn… concept is working.

Arkema, number 1 globally in PMMA and number 2 in flourochemicals, will exhibit at Interplas 05 in the UK this October – being joined by Basell as well as many others.

R.R Engineering Works has supplied over 45 thermoplastics sheet extrusion lines to Indian sheet producers over the last 24 months, creating a formidable industry in India.

Spartech to close its Taylorville, Illinois (US) extrusion plant in a restructuring move – other closings and/or consolidations may occur later this year, according to the company, which also announced a second sheet extrusion line at its plant in Donchery, France.

Vink, Denmark-based supplier of shapes, had a 5% sales growth last year and expects to add operations, including a machine shop, in Europe. Operates in 14 countries and is owned by the Dutch group Kendrion.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Regal Piedmont Plastics LLC is operating in 11 western U.S. states, Mexico and western Canada. This 50-50 jv, previously announced, will add to the existing Piedmont Plastics business and will employ 500 with annual sales of US$200 million.

Total Plastics opens a branch in Charlotte, NC, with Chuck Painter as manager.

Blackfriar Group, new parent of Laird Plastics, purportedly in talks to acquire Calsak Plastics sheet distribution business in U.S. (estimated US$40 million sales at 6 locations in west coast and SE U.S.) – closing expected later this month.

New cell cast acrylic sheet company (background still being checked out) appears in Milwaukee, Wisconsin – to be known as Acrylics USA.

King Plastics, adding additional sheet extrusion capacity as well as other equipment, to its plant in Florida

Lucite International's CEO Ian Lambert denies the company may be sold soon – reports sales of US 1.1 billion, with $184 million profit in 2003 – claims 25% global market share.

Bunzl plc plans spin off of its Filtrona unit, which includes Bunzl Extrusion and Southern Plastics

PEOPLE: ZL Engineering Plastics hires Russ Consentino and others of Plastics Solutions as Manufacturers Reps. George Southard to represent Acrylics USA.

In Memorium… Frank English, VP Purchasing for Commercial Plastics for over 40 years, passed away last month in New York City – many will remember his gruff voice but big heart… a serious yet funny man with product background second to none.

INDUSTRY INTERVIEWS: … concluding our interview with Michael Batky, Vice President, Business Answers International, regarding logistics management.

Q. How do freight bill auditing companies work? How many in our industry use them?
A. Most of the mid to large size distributors and manufacturers utilize some element of freight bill auditing. Typically, the auditing company charges a fee for analyzing each bill of lading, checking for accuracy and the proper freight charges. They also can pay the companies' freight bills. These services are typically included at no cost when a 3rd party logistics company is utilized.

Q. What are some of the trends in the logistics field?
A. In addition to lowering freight costs, 3rd party logistics companies are replacing the need for the in-house time consuming logistics process which leads to excessive costs including carrier selection, freight negotiating, scheduling, invoice processing and claim processing. It is much easier to leverage freight carriers through a 3rd party logistics company. Logistics management is critical in dealing with higher fuel costs, higher transportation operating costs, equipment shortages, and getting products to the customer on a timely basis and at a reasonable price.

Q. Who are some of the leading players in the logistics consulting field?
A. Business Answers analyzed and studied various supply chain and logistics management companies. C. H. Robinson Worldwide, Ryder System and United Parcel Service are three of the leading players. We I felt that C. H. Robinson Worldwide, a 100 year old company and one of the world's largest 3rd party logistics companies provided the most value to the plastics industry.

Q. What's the typical effect on the bottom line after using logistics consultants?
A. I would expect the typical savings effect to be somewhere between 10% and 15% when both "hard" and the in-house "soft" savings are considered.

Q. How will the internet affect all this logistics awareness, if at all?
A. I have not seen the internet as an effective tool to manage or lower freight costs. However, the internet provides another venue to lower freight costs. As previously mentioned, the distributor or manufacturer has the option to phone, fax or email the shipping requirements. However, the larger 3rd party logistic companies have the capability of receiving this information directly to their computer systems via the internet. This results in an electronic transmission of information that lowers the 3rd party logistic companies cost. A portion of these savings are passed along to distributors and manufacturers who utilize "computer to computer" technology for their shipping requirements.

Q. On a personal note, what do you consider your greatest achievement?
A. Maintaining a career in the plastic shapes industry during my entire working career beginning in 1961 (ouch!) with the Comco Plastics Div. of Commercial Plastics.

Q. What was your first job?
A. My father had a tool and die shop when I was going to high school. My first job was cutting and drilling G-10 phenolic terminal boards and I'm still itching!

Q. If you could come back as someone else, who or what would it be?
A. The editor of Mel Ettenson's Global Plastics Letter.

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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