Mel Ettenson's GLOBAL PLASTICS LETTER

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Dear Colleague:

The outlook for 2002, at this juncture, is mixed – the global economy in 3Q 2001 is soft at best, with no relief in sight for 4Q 2001. The puny U.S. economic growth rate in the second quarter – estimated at only 0.7% - is likely to give way only slowly to a healthier pace. Once again energy is among the important variables holding back growth…the strength in housing is helping. But you won't see a sharp recovery – we're predicting that industrial production will begin to expand by the fourth quarter. At that juncture, inventories will have been used up after a period of accelerated liquidation caused by the unmentionable recession (it's just amazing what a pack mentality we all really have) – the result of four factors: excessively high interest rates in 2000, a spike in energy costs (as we have been observing since Sept 2000), an overvalued dollar, and an excess buildup of tech equipment. Some industries have escaped the shock – those that are not energy intensive or that make and sell their products domestically - housing and autos have been doing well as we've observed in the past few months.

Since we now have proof that the business cycle exists, despite 8 years of seemingly endless expansion of most of the global economies – this budding recession is also predominantly cyclical…the economic shocks in late 2000 caused an unexpectedly sharp drop in demand of most industrial goods – including our plastic shapes! Inventory began to build up and it is just now leveling out. However, over the past decade production of plastics has been globalized which has greatly increased worldwide capacity and intensified competition across the board – this makes it almost impossible to raise prices for manufactured goods.

That all-important factor – *energy* - will determine the when and how of the recovery from the current slump in our industry. Our forecasts… oil prices will drift lower despite OPEC's production cuts and gasoline (that bellwether for shapes prices) averaging about $1.50/gal this month, will hit $1.40/gal in November, then hold, providing no big production problems.

Other forecasts:

- Unemployment will continue to climb in '01
- Business travel costs to increase single digits in '01-'02
- Volatility in oil and natural gas prices
- Plastic resin prices will resume their climbs in '02 – no sooner
- Health care costs to skyrocket in '02
- Cash flows to continue downward spirals until mid '02
- "Green" partnerships to increase upward pressure on resin prices
- Global economies will weaken until 2Q '02
- Trade with Australia and Brazil quickens

TRENDS: The number one worry for most businesses in this slow economy: Cash flow. Slow-pay and no-pay customers are on the rise – it threatens economic recovery, a return to much healthier growth. Steps that need to be taken are – speeding up billing, tightening up credit policies, getting employees to "think cash", tightening inventory control and paying smarter.

Polypropylene's growth expected to continue at a 6-7% annual rate for the next 5 years, according to a Townsend Associates report released late last month. Key global producers are: Basell, ExxonMobil and Dow, with Atofina, Sumitomo and Formosa next in size. Year 2000 statistics showed a 6% increase for PP in 2000 vs. 1999.

In a special report released by *Industrial Distribution*, their 2001 survey listed the major concerns of small distributors (defined as those with annual sales of $15 million or less):
Competition from large national distributors and catalog houses (63.8%); Pricing pressures (61.9%); Finding and keeping employees (41.3%); Integrated supply (27.1%); Investing in technology (17.9%); Consolidation (16.5%) and The internet (15.6%). Evidence of small distributors entrenched more deeply into their niche is found in the size of small distributors with the number of those with annual sales of $1-3 million has increased dramatically in one year while those at $12-15 million decreased. How Plastics shapes distribution correlates with the above survey of all distribution will be reported in a future issue, however we expect it to be a mirror image.

In a far reaching research report, *Facing the Forces of Change* from Pembroke Consulting, predicts the ways customers will buy in 2006 – the Internet will be common, not dominant… a way to receive orders just as the introduction of the fax machine and EDI created additional options for customers. The survey found that industrial customers send 10% of their orders electronically today – by 2006 it is forecast to be 37% on-line.
This would beg some questions:

- What will be the top three priorities of our customers in 2006?
- What will customers pay a premium for in 2006?
- Who do we want for our customers in 2006? Who will be the most profitable?
- Which of our services will no longer be necessary in 2006?

Becoming a customer-driven company means more than just products – it means commitment, vision and a ruthless focus on genuine customer needs. Start planning now!

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: After a dormant summer in this arena, we have some significant events to report – Piedmont Plastics acquires Webb Plastics of Chicago, giving Piedmont a presence in this mega-market. Additionally, Piedmont is said to be in negotiations with Daytona Plastix leading to an acquisition which would further solidify their already dominant position in the southeast. Panolam Industries continues their due diligence leading to the acquiring of the Micarta laminates (both decorative and industrial) business of International Paper. Closing appears to be sometime in 2001.

DISTRIBUTOR/MANUFACTURER BRIEFS: Omnexus, the major plastic resin website leading in B2B e-commerce, already with multilingual transaction navigational capabilities for English, French, Spanish and German users, adds full transaction capabilities in each language formats as well as any of the world's recognized currencies – the site can also handle transactions in metric, U.S., or any other recognized system of weights and measures.
King Plastics moves to a 150,000 square foot plant in Fla. to accommodate future growth – a $10 million investment.

WW Grainger, in a mass mailing gives away premiums (Palm PDA's) to obtain leads for its National Accounts Program – results in 12-13% response to request for appointments with key decision makers. Curbell has been doing this with airline miles ("Take Off") for orders during the past year with some success.

JLM Marketing, Tampa based distributor of resins signs letter of intent to buy webportal getPlastic.com.

Syspro Impact Software of Costa Mesa, CA, a leading supplier of IMPACT software releases a new module designed to fill the needs of manufacturers and distributors that rely on the cutting of shapes and pieces from standard size sheet, rod and tube – returning remnants to inventory.

IAPD to sponsor 8th University of Industrial Distribution Fall 2001 session at Indiana University/Purdue University in Indianapolis in October. Annual IAPD convention planned in September at Nashville, Tenn.

PF&F magazine sponsors 11th annual Thermoforming Conference in September in Milwaukee, Wisc. – most major sheet suppliers will be exhibiting.

Toray Industries of Japan announces jv polyester film venture in China – a major move in this film family.

Eastman Chemical cuts output of PET at 3 European sites – PETG Spectar going strong.

Atofina Chemicals plans to spend $42.5 million for U.S. expansion of its acrylic and olefins resin business – an agreement with Rohm & Haas for an expansion of the Texas MMA facility gives it an output capacity of 950 million pounds per year by 2002, up from its current 220 million.

Innovative Plastic Technologies, a supplier of cast acrylic sheet, adds several ex-Plaskolite reps.

GE Plastics looking at adding nylon to its offerings, now that the Honeywell deal is dead – would have provided the nylon resin business of the former Allied Chemical, merged with Allied Signal which became Honeywell – remember Capran?

Raven Industries, one of the bright spots in plastics profit reporting, reporting a 52% jump in net income due to higher shipments of it Engineered Films business and after sale of its Plastic Tank Division.

Georg Fischer increases sales and profits for its first 6 months of 2001 – Fischer you'll recall acquired a position in Simona AG last month.

PERSONNEL: Ineos Acrylics Inc. names J. Jefferson Davis as President and he replaces Ross McMillan as President of Ineos USA. Hyde, unit of Ensinger, loses Ken Schwartz to Sustaplast and Jeff Warren to Nytef. CO-EX names Tami Churchill vp sales and marketing. Polygal USA appoints Janice Pravorne its regional sales mgr for NE U.S. Curbell names Eric Holle Atlanta branch manager. BREAKING NEWS! – Greg Adams, President of GE Polymershapes (who we interviewed earlier this year), is out and on to a new assignment with GE – no replacement named yet at press time. He will continue as interim president.

WEBSITES OF INTEREST: New supplier of industrial laminates at www.econplastics.com. News website of general interest to our industry is www.myplasticsinfo.com. For a list of Plastics Industry Associations and Society web sites email us at: info@globalplasticsletter.com.

To obtain materials in any language and currency go to: www.omnexus.com.

Want to access many trade publications, including this one? Go to: – www.polysort.com/industry/industrypublications.

Poly Hi Solidur's Spanish version website is operating at: www.polyhisolidur.com. More than 37,000 plastic material data sheets available at www.ides.com.

Search for 2700 compound data sheets at www.rtpcompany.com where its P POD Properties Search Function narrows the field to fit your parameters.

NOTE:

For help locating any website of interest to our global plastic shapes industry – email us … we have thousands in our data base.

INDUSTRY INTERVIEWS is still on summer vacation (winter for readers in the southern hemisphere) – and will return in the fall, alternating with a new feature: PLASTIC PROGNOSTICATIONS.

NEW PRODUCTS: DuPont's Vespel "product line undergoes some major changes and additions – with the announcement of TP-8005, the newest member of the Vespel Thermoplastic (TP) family of polyimides, available in sheet and plaque, offers advanced properties for the semi-conductor industry. The TP group of products also includes TP-2875,2346, and 1012BK and joins the Vespel S (standard line), CP (composites), CR (chemical resistant), and ASB (assemblies) family of products.

Plastic microchips, replacing silicon (semiconductor) and aluminum (conductor), are a reality based on the recent Nobel Prize work done on conductive polymers. Now Dow Chemical and Motorola are working on printable transistors and microchips, replacing expensive etching and lithography with inexpensive ink-jet printing. This will revolutionize the computer industry!
For more on this technology see *Business 2.0* – July 2001 issue entitled "One Word: Plastics".

Acrylic Design Associates using Sheffield Plastics (a Bayer unit) Vivak "PETG sheet made from Eastman's copolyester and incorporates it into an innovative "push-pull" DVD display, maximizing looks and minimizing theft.

CYRO's Acrylite AR sheet is being used extensively for instrumentation applications such as break and abrasion resistant gauge covers, replacing glass, a long-time incumbent in this large industry now recognizing another plastic triumph over glass. What would the Phoenicians say about this?

Spartech has launched five novel engineered sheet categories intended to help thermoformers replace metals, wood, and FRP composites. They are:
- Extreem PolyPro – a co-extruded PP sheet using Entegrity PP resin from Basell – claims for this PP substrate and high gloss PP capstock are for easy forming with excellent low temperature properties.
- CamAlloy – laminations of TPO or ABS with weatherable films of camouflage-decorated acrylic – replacing painted wood.
- CastAlloy – substrate of ABS heat bonded to an acrylic capstock made by Ineos Acrylics – being used for sanitary ware applications.
- Aero R72 – PVC/acrylic alloy meeting FAA fire ratings and used in typical Kydex applicatons.
- SoundX sheet – available in monolayer or coextruded versions tailored for sound dampening. This flexible, breathable sheet can be stapled between walls and ceilings to reduce sound.

GE Plastics new Xylex "combines PC with an aliphatic polyester that is both amorphous and miscible in PC – bringing the combination of clarity, ductility, cold weather toughness and chemical resistance. Suitable for eyewear, consumer electronics and housewares, it is now being used in frames of sport glasses. GE plans to offer Xylex film and sheet with the above properties and with greater scratch resistance than Lexan at about a 15-20% premium.

NOTE: Our current electronic edition is now available to all subscribers – instant access by the 7th of each month on our website – overseas subscribers especially save time and money – send us your email address to begin receiving this e-edition.

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