



GLOBAL PLASTICS LETTER

E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

“A World of Plastics Information”

AUGUST 2002

Dear Colleague:

It's a nerve-wracking recovery - with an economy which IS growing slowly (low single digits) – but it doesn't really FEEL like it especially compared with the more rapid growth of 1997-2000.

Uncertainties abound, with worries about more terrorism and corporate gluttony and accounting racketeering adding to economic concerns.

But by October the stage will be set for an improvement ... unless a cooling of the recovery caused by downturns in global stock markets, slowing spending - and volatile industries such as hi tech and telecom, currently in decline, cause the feared “double dip” recession. Only once in the last half-century has this occurred and never with a potent mix of low interest rates, lower taxes, high productivity growth and vanishing inflation – however the supply of credit is in question and that portends a slowing of business expansion that could lead to the second dip or to slow growth or deflation or a combination. Already most in our industry are now writing off the second half of 2002 and planning on some resurgence in 2003 – once planned for this year.

Reports we hear are that a goal of returning to sales and profit levels of 2000, anticipated for this year now are targeted for 2003 by the optimists among us – this writer included. Goals for the current year appear to be heading for equaling 2001 – exceeding it will happen in 2003, short of any major economic or terrorism surprise disasters.

Industries with apparent future growth and with sudden major opportunities are in defense and homeland security, (ships, aircraft, electronics) with telecom and computer related industries slowing. Time to take stock of your end-use markets for plastic shapes. With energy prices mixed, although natural gas looks like a sharp spike is on the horizon, time to lock in contracts with those customers set to take off on the 2003 economy spiral is now. Especially in the face of trucking contracts heading for 4-6% increases in 2003. With aluminum and copper prices set to rise, ETP's are poised for more market penetration.

TRENDS: SPI has just released its Plastics Industry Data for 2000 – it shows the rankings of world consumption of commodity thermoplastics (including HDPE, LDPE, PP, PS and PVC) rankings as follows:

- | | |
|---------------------------------|-------------------|
| 1. Asia (excl. Japan) | 5. Japan |
| 2. Western Europe | 6. Middle East |
| 3. U.S. | 7. Eastern Europe |
| 4. Latin America (incl. Mexico) | 8. Canada |

U.S. Plastics Industry Data showed: 1.5 million jobs; \$331 billion in shipments – jobs up 25% and shipments up 35% since 1994, with 16% of jobs due to exports (see www.plasticsdatasource.org for details). Top 10 states for plastics shipments and employment were: TX, CA, OH, IL, MI, PA, IN, NC, NJ, and NY – while the following countries accounted for most of the global trade: Australia, Brazil, Canada, Belgium, China, HK, and Mexico.

Manufacturing economy expands for fifth straight month in June. The Institute for Supply Management reported that 15 industries saw improvement in production with its index the highest recorded since June 1999 – all pointing to a bullish outlook, although not as strong when looking at year-to-year performance - one echoed by several of the manufacturers of plastic shapes that we talked to. Several moderate price increases in place now did not factor in to the results of this most optimistic scenario in June-July.

Continuing our thoughts on some ways to stay up in down times ...

- focus on core business;
- don't panic-spend on advertising;
- don't cut good people;
- sustain training;
- reduce entitlements and reward performance; terminate weakest links;
- cut once- not piecemeal;
- stay positive;
- look for opportunities created by weakness of competitors.

DuPont sees nylon as core growth product – According to Craig Naylor, Group V.P. of Dupont Performance Materials, nylon demand is showing good growth globally and will continue to be a focus of Dupont. Most especially in electrical/electronics end use markets, where an 8-10% industry wide volume growth potential for materials substitution is forecast.

Fee-for-service will be a logical evolution of the traditional gross margin pricing model for industrial distributors, according to some recent studies by Pembroke Consulting ... but making it work if its time has come, as dictated by the buyer, will be the challenge. In the traditional model of mark-up pricing, OEM's with the lowest service requirements typically subsidize higher service demanding customers while fee-for-service customers demanding the most service will be presented with the highest fees – a deterrent to fast growth of this system which could have built-in limitations. Distributors may have better luck acquiring existing service companies (fabricators?) instead of struggling to get customers to pay for previously free services. Then there is the manufacturer in the equation who may be tempted to integrate forward to distribution and/or fabrication in order to offer fee-for-service, while rationalizing it as a means to greater market share with materials. We will be watching these trends during the remainder of this decade when the direction will be clearer and a resumption of growth and further consolidation could revert thinking to traditional avenues.

PRICING: Prices are edging up on PP, PE and especially PS – causes?...improving market demand as well as styrene monomer supply tightness (spot price has doubled this year). Further, butadiene rubber price hikes will up HIPS and ABS prices in the next quarter.

As for GP acrylic, prices have leveled out at just under 90 cents/lb, following recent historic lows of 84 cents in '99-00 – decade record highs of .98/lb were recorded in '91-92 and '97-98. BASF increased North American nylon extrusion polymers 8-12% effective Aug. 1, following a 15% increase in caprolactum on July 15, affecting cast nylon shapes.

Ticona will increase prices on its Celcon acetal copolymer, PBT and PET, effective Aug 15 from 10 to 4 cents per pound respectively – this for North and South America.

Watch for increases on nylon and acetal shapes in 4Q 2002.

Annual production of plastic sheet and film is forecast to rise 7% in 2002, after a 1.2% increase in 2001. Pipe production fell 4.7% in 2001 with growth of 7% forecast for 2002.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Spartech breaks ground on a new 110,000 square foot sheet extrusion plant and compounding facility in Mexico – this follows their jv with Whirlpool and Vitro S.A. and a supply agreement to provide \$20 million in annual sheet requirements for Whirlpool's needs.

LG Chemical Ltd will construct an \$11.6 million, 20,000 metric ton, ETP compounding facility in China this year, with capacity equaling that of GE Plastics in China. LG Chem already operates the largest ABS and PVC resin plants in China, which has been the world's largest importer of engineering plastics over the last three years. Vericalnet has sold Plasticsnet to Corry Publishing, Erie, Pa. – sold to Commerx in February 2001, Plasticsnet has carried most of the limited shapes auctions to date.

DISTRIBUTOR/MANUFACTURER BRIEFS: Universal Plastics, a major thermoformer has moved into a former Kodak plant of 62,000 square feet in Mass.

Eastman Chemical to focus on e-business with its global e-commerce platform consisting of an online storefront with 800 customers, 20,000 users, generating \$400 million in revenue.

GE Plastics and GLS Corp. have agreed to develop soft-feel engineering thermoplastics substrates, all distributed by GE Polymerland – with shapes possibly following.

GE Plastics order volume for core products grew for the second consecutive quarter - 15% in 2Q 2002 vs. 2001 and order backlog grew 9% vs 1Q 2002. China remains growth area.

Georg Fisher reports 15% lower sales for first 6 months of 2002; its piping systems group came in at lower sales and profits (by double digits), although its alliance with Simona is expected to produce higher volumes, especially in flouropolymers.

Bayer Plastics new Bayfol CR® PC/PET film provides gloss/micro-matte finish, especially for membrane switch applications.

Quadrant reports higher operating earnings and cash flow for 2Q 2002, led by its Engineering Plastic Products business in the USA and Asia.

WW Grainger installing distribution center network which will replace its branch network for shipping purposes – expecting to ship most of the \$1 billion annual shipments by 2004.

U.S.Plastic, Lima, Ohio wins Catalog Age “I-merchant” award for its website: www.usplastic.com

PEOPLE: Jerry Brock resigns as President of Kleerdex, replaced by James Medalie, announced by Sekisui America, its parent. Pat Pheffer moves from sales head of Nytef Group to Zell – Metall GmbH in a similar position. Gary Hess leaves Polycast as General Manager.

INDUSTRY INTERVIEWS:

... continuing our interview with Al Favero, GE Polymershapes Americas Sales Leader.

Q. Will there be a shift from basic shapes to other products and markets? For example: fabrication.

A. *GE Polymershapes is a full service plastic shapes distributor, fabricator and film converter. We will continue to offer the full range of products and services to meet our customers' needs.*

Q. Is GE's basic shapes strategy to be a stepping-stone to selling resin to molders? Will you no longer "lose" the large shapes customer to injection molding?

A. *Each customer makes a molding/shapes decision on each individual project. It is basically part and quantity dependent. Shapes distribution services the limited builds, small lot sizes and other applications where tooling costs make molding cost-prohibitive. We see them as complimentary product offerings. Regardless of the customer's decision to mold or use shapes, GE Plastics is able to meet those needs with resin and shapes.*

Q. Where do you see the biggest growth for new sheet products?

A. *As the US comes out of the recession, we see growth in a wide variety of industries and segments including safety/security, building & construction and transportation. We also work closely with suppliers, looking to them to provide new products and applications. That allows us to focus on our core competency, plastic shapes distribution.*

Q. What's the likelihood of Bayer buying Spartech now that millions of shares are available on the open market due to British Vita's divestiture of their ownership of Spartech?

A. *We have no knowledge of and cannot speculate on Bayer's business development plans.*

Q. How much input did Jack Welch have regarding the formation of GEPPS? Jeff Immelt?

A. *Jack Welch and Jeff Immelt are very close to and supportive of GE Plastics. As a key short cycle business, GE Plastics is an indicator of business conditions and the overall economy. They were both aware of, took part in and approved the formation of GE Polymershapes. Jeff continues to be very supportive of the GE Polymershapes business and sees it as a strategic part of the GE Plastics portfolio.*

Q. How likely is it that GE Polymershapes will stay in the acrylic sheet business vs Lexan? Would you "trade" it for another business?

A. *Customers look for specific product performance requirements for specific applications. Sometimes, the best product for the job is acrylic and sometimes it is polycarbonate. We see room for both products in the marketplace and both product lines are strategic to the GE Polymershapes portfolio.*

Q. Any other acquisitions in the planning stage?

A. *GE is always on the lookout for acquisitions to enhance their business position.*

Q. On a personal note, what else would you be doing if you weren't doing this?

A. *I have been in plastics since I joined GE. If I were not the Americas Sales Leader for GE Polymershapes, I would be in similar challenging GE Plastics leadership role.*

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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™
is published monthly by Lucitron Corporation,
P.O. Box 250235, Franklin, Michigan 48025,
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

Subscription or Editorial Information: 248/258-5657
Fax Number: 248/258-0851
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com