



GLOBAL PLASTICS LETTER

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

“A World of Plastics Information”

AUGUST 2004

Dear Colleague:

Obfuscated Optimism? Third quarter 2004 results are in from most industries and countries and the business results story is a mixed and muddled one. On the one hand production and new orders continue to soar in many plastics end markets, while similar inventory levels still have either failed to keep pace or have actually decreased. The housing market, critical to many in our industry, shows signs of this imbalance – despite continued housing growth, inventories for appliances remain comparatively low.

Import prices for many important end use markets have fallen despite an opposite price trend in others. Rising imports in the U.S. plastic market have been accompanied by simultaneous increases in both domestic production and new orders. For the period of January to April of 2004 exports from the U.S. plastic industry rose 10.5% higher than year over year comparisons to 2003. This rising plastics production and growing export markets signal a recovering global economy which should spur growth for many plastic manufacturers. However long term growth depends on a balance between exports, imports and domestic demand - exploring foreign markets is imperative for manufacturers and distributors alike.

On the other hand, spending on factories, warehouses, and other structures is up as well as investment in IT and other equipment ...a reflection that businesses are convinced that growth is steady, not sputtering out. This bodes well for second half growth after the gyrations of the first half – despite the dip in a healthy expansion that reared its ugly head last month, driven by the relentless upward spiral of energy costs. Of course the pressures of terrorists disrupting oil supply as well as the most recent threat of financial market interference hovers over all businesses. Oil, natural gas and gasoline will remain at record high levels through the fall at least - \$40 per barrel for oil will be normal, yet adding to inflation in most building block chemicals, adding to the specter of uncertainty in the supply-demand ratio for most materials. Capacity additions just can't take hold during periods of artificially high prices.

We foresee a softening in budgets for MRO supplies going into 4Q 2004, thus being a precursor for a slowing of growth in plastic shapes both at the manufacturer and primarily the distributor level. The need for new and innovative products, especially in the sheet sector, has never been greater nor more important for sustained growth – at least 2-3 consecutive growth years (we've only seen one) to get the industry back to pre 2000 levels.

TRENDS: The London Metal Exchange announced its launch date for commencement of trading in two plastics futures contracts. PP and LLDPE will begin trading on May 27, 2005 – this is a ground breaking move coming at the time of escalating prices in most commodity resins and should allow manufacturers to mitigate inflation, hopefully passing savings along to end users.

Demand for cast acrylic polymer materials, (i.e., Corian®), is forecast to advance 5% per year to reach 205 million square feet by 2208 – this will continue to shift the focus to new markets for acrylic sheet capacity, such as non-residential counter tops.

Modern Distribution Management, the respected industry publication, has been publishing an Inflation Index, which measures a cross-section of industrial supplies and their pricing. Their June index is up 0.45% over May 2004 and up 2.97% from May 2003 – no surprise to those following plastics resins and shapes pricing moves in 2Q 2004 and beyond. They also report that sales of all merchant wholesalers were up 16.1% in May year over year comparisons.

In a study from Freedonia Group, plastic film demand is projected to grow 2.7% annually to reach 15 billion pounds by 2008 – a \$22.7 billion market led by PP and LDPE with PET slowing.

Internet use around the world is skyrocketing – 119% more users since 2000, with the U.S., Europe and Asia adding over 100 million users. Fastest growing will be Asia where usage is in single digit percentage of population versus 69% in the U.S. – only Sweden has a higher use rate.

Instant messaging however is set to take off with business users now that Microsoft, Yahoo and AOL have agreed to a new clearinghouse system to allow seamless communications among users. Next up are Wi-Fi phones, which merge access to wireless networks with cell phones, allowing fast transmission of data – cheaper than laptops; the size of a paperback book, the phones offer convenience and savings for those working away from an office.

A new online community for strategic interaction with suppliers and their customers and peers will enable registered participants and attendees in trade show sponsored by Society of the Plastics Industry (SPI) to develop business opportunities on a 24/7 basis from anywhere in the world. Trade named PlasticsMatch, the community can be accessed on August 9 at: www.plasticsusa.org/PlasticsMatch - by those who have registered to attend or exhibit at SPI's Plastics USA show which takes place Sept. 28-30 in Chicago's McCormick Place.

This year's Chinaplas exhibition was the biggest ever – held June 29-July 2, 2004. It attracted over 57,000 visitors (7028 from overseas) and 937 exhibitors, within 90% of NPE 2003. By comparison, K 2004 is expecting about 225,000 attendees. Chinaplas 2005 will be held June 21-24, 2005 at the Guangzhou Exhibition Center.

With many manufacturers moving their plants to China, the effect on distributors is becoming more apparent – 45% of the 800 industrial distributors surveyed by *Industrial Distribution* magazine report they have lost customers that had moved to China in the last two years.

The typical respondent lost 10% of his total sales volume due to this trend.

IAPD's Annual Convention in Las Vegas, Sept 8-12, 2004, will feature 100 suppliers at its Plastics Exhibition on Friday, Sept.10. As usual, education and networking are compelling reasons for attending – and it is expected that attendance will be the highest in 3-4 years.

Freight bottlenecks, a growing problem in our robust economy, will be widespread by September as manufacturing has its typical seasonal surge and new port security measures slow ocean traffic.

Expect freight companies to raise rates even higher than they already have so far this year, already up 8% - 12% this year with another 10% hike expected - primarily due to higher gasoline and oil prices.

Thus some of these negative trends that temper new found economic growth, led us to our assessment of obfuscation.

PRICING: Higher and higher... PE, PP, PET, PBT, PVC, PS, nylon and phenolic, all up this past and current month – higher benzene feedstocks are contributor. Joined by acrylic monomers in another round of single digit increases, we are now in a full period of price escalation across the resin spectrum. With shapes and adhesives increases expected to continue unabated, it appears that the market will absorb them reluctantly. Only natural gas has backed off slightly.

DISTRIBUTOR/MANUFACTURER BRIEFS: Simona will exhibit its co-extruded seven layer twinwall sheet at K 2004 – said to be thermoformable for use in fuel tanks.

PolyHi Solidur adds Corzan® PVC-C fire-safe sheet to its product offering - for use by the revived semiconductor industry.

Precision Plastic Sheet has been put up for sale by its owner Wirtz Manufacturing in order to concentrate on its core business of battery manufacturing equipment. They are talking to 3 potential buyers and expect to have new owners by the end of the year, with minimum business interruption.

GE Polymershapes has been appointed exclusive distributor of Meldin® polyimide shapes for St. Gobain Performance Plastics.

Perspex Distribution has opened its second warehouse in Walker Park, UK – distributing full line of semi-finished plastics, including PETG from Palram.

Barlo Plastics, UK, has new owner from Northern Ireland and is growing once again.

Plaskolite has released a new sign market brochure describing its standard and impact modified acrylic sheet products.

Total Plastics, a unit of A.M. Castle & Co., in a recent article in *Metal Center News* is reporting 2003 sales of US\$ 65 million, with 1Q 2004 up 30% year over year compared to 2003. This includes two majority owned jv's – Advanced Fabricating Technology and Paramount Machine.

Fourteen Total branches adding up to 355,000 square feet are operating in eight U.S. states.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

2003 saw a doubling the M&A's among plastics processors compared with 2002 and this year's pace will equal or surpass that – 369 deals were completed last year. Distribution is next.

Aetna Plastics, a long time materials distributor acquires Ohio fabricator Vanguard Plastics - its first acquisition in over 50 years.

DuPont is building the first plant for its high temperature nylon, sold under the Zytel HTN® banner. Also increases its Kevlar® capacity for the fourth time since 2000; adds to engineering plastics compounding capabilities in China and Argentina.

Austrian pipe producer Pipelife, a jv of Solvay and Weinerberger, with sales of E566 million and one of the worlds largest, acquires Germany's PE and PP pipe maker Drossbach.

Atoglas has closed its cast acrylic sheet plant in the Netherlands, leaving it with one European plant in France.

Laird Plastics acquired by ? - closing set for Oct. 1, 2004. Now down to several buyers - both inside the industry and outside investors.

PEOPLE: Peter Swinkles to become Executive Vice President of ThyssenKrupp's AIN Plastics unit – prior assignments were at their Otto Wolf Belgium plastics operation and Cadillac Plastic, France. Peter Arvan has been named General Manager of GE Polymershapes, reporting to John Krenicki, CEO of GE Advanced materials – prior to this he served with GE Supply as supply chain manager. He replaces Scott Telesz who has been promoted to GM Sourcing, GE Advanced Materials. Also at GE, Craig Witsoe is new GM of GE Structured Products, Americas.

Norman Hargreaves is branch manager at Perspex Distribution's new branch in Walker Park, UK.

Dr. Markus Kramer is the new head of BASF's global acrylic monomers business.

INDUSTRY INTERVIEWS: ... concluding our interview with Rick Wagner, Consultant, Special Projects, Sustaplant.

Q. Will manufacturers and distributors ever trust each other? Who are the most successful partners? ...If you can name any?

A. Mel, I would trust YOU with my wife!

Distributors and manufacturers will trust each other only under very specific circumstances. It is imperative that a partnering take place at the highest levels in both organizations and the partnering relationship is made clear and inviolable to those charged with implementing it. Demonstrated trust is everything. It is not easy and requires people of immutable character on both sides. It also requires delegated decision making capabilities to lower level participants.

I believe the best relationship I have seen was between the original Polymer Corporation and the E.Jordan Brookes Company. The original relationship was built at the very beginning of the plastic stock shape industry in America, and the relationship has lasted for many decades. It was built on trust between two very special people, the founders of both companies. That trust was transferred to operating levels and it has worked very well for many years.

Q. Will distributors be paid on fee for service versus “buying low and selling high”?

A. Yes, if there is a demonstrated service being rendered. In my experience, I have paid “finders fees” on occasion and had turned over business which was obviously beyond the scope of the distributors current business. It is beneficial to the manufacturer, because it helps to expand the distributors’ horizon. After all, who has the lion’s share of the industrial contacts...the distributor.

Buying low and selling high is just great! Especially if the product is actually “sold high.” It is only bad if it becomes the mantra and supersedes real marketing efforts to grow the served market. Problem is buy low eventually means sell low, especially if that is all you have to sell.

Q. Who was the best Manufacturing person you ever knew?

A. The best manufacturing person has to be Louis Stott, the founder of the Polymer Corp who decided that nylon could be extruded into a stock shape even though he was told by the key raw material supplier that it wasn’t feasible. This guy was a metallurgist, not a plastics engineer.

Q. What advice would you give a Marketing person entering our industry today?

A. Find a company with a positive management team in place. If you take a job and find out that your assessment of the team was incorrect and the company is an innovative desert, take the first camel out of there. Don’t look back.

Make friends with everybody in the company including the lowest on the totem pole. Ideas come from all places and all types of people. If you act on your own ideas only, you will not last.

After a successful interview for the job, don’t keep reminding everyone of how smart you are and what school you attended, MBA, etc. Most people will be underwhelmed, especially customers.

Always tell the truth. Yes you may find it necessary to “embellish” now and then, but basic truth works in the long term.

Observe how the best companies are managed and what they offer their customer base. Imitation is okay. Really new ideas are rare.

Push your company to develop new products and services. Customers are always asking what’s new. Have a few nuggets in your pocket.

Keep all doors open. Don’t get hung up on price and delivery. Get hung up on service before, during, and after the sale. Study your served market by living in it.

Q. Who would you like to come back as, in another life?

A. During the week:

Me, with all my shortcomings corrected. Seriously, probably Leonardo da Vinci. Imagine the fun of having more talent than anyone who pre or post dated you!! (Did you know that Lenny had produced a plastic-like material which was very similar to phenolic, some 500 years ago?)

Thank you for your most comprehensive views!

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.