



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

DECEMBER 2004

Dear Colleague:

Year end “yips” ... such is the uncertain state of our industry’s economy as the year winds down. From our survey of the industry and the resulting consensus, October, normally a record month, was good but not great. Certainly the incessant pressure of the upward movement of prices is contributory to buyer hesitation as is the continual rise in energy costs, dampening profits.

If you want to lower energy bills... conservation is the only real option. High prices will be around for the near term in both oil and natural gas. The key factors remain: demand is strong, fueled (pardon the pun) by fast growth in China, India, and other developing countries. Yet supplies are still constrained with output at maximums despite Saudi Arabia’s recent announcement that it has increased outputs single digit amounts for 2005. Big gains in Russia and elsewhere are still years away.

The risk of disruption is high, in Nigeria, Venezuela, Russia and the Mideast, adding about \$10 to a barrel of oil – as a result expect oil to average \$40 per barrel through 2005 and natural gas at \$7 per million Btu.

Accordingly conservation is mandatory and the awareness must be high... there’s still lots all businesses can do to trim use. Among the most effective and economical options: Motion sensors- at about \$25 each; they turn off lights, copiers etc in empty rooms. Additionally, high-efficiency fluorescent fixtures can trim lighting bills 50% and low-friction, adjustable-speed motors use 10-20% less power. If not sure where to begin, an energy audit is free from the U.S. Department of Energy for businesses with annual energy bills under \$2 million.

Businesses’ ability to pass on all price increases will remain difficult next year although the chemical and plastics industries are finding it easier than most. For 2005, expect a 2.5% overall inflation rate... with plastics leveling off at high single digit rates.

A new era of higher long-term interest rates is dawning – driven by budget deficits and fragile economies globally.

TRENDS: With price inflation continuing in plastic shapes, it is still difficult to pass the increases along up the supply chain. Increasingly more manufacturers and distributors are handling this in a different manner than in past eras. Rather than treating the underlying resins as a commodity they are treating the material, not as a product, but as a service and selling time – a service that doesn't behave as a commodity but has variables such as people, machinery and energy. Thus some of the increases can be absorbed by better productivity and certainly some cannot and must be passed along.

According to figures from K Fair 2004 in Germany, 230,000 visitors attended 2914 exhibits, more than half of visitors came from outside Germany with 59% from Europe and 6900 from North America and 23,000 from Asia. Attendance was up of course from 2001 with the largest increase by far, from Eastern Europe (73,000). India, which accounted for 7300 visitors, is fast becoming almost as much a growth market as China- its economy is headed for 6% growth next year - restrictions on investment by outside companies are about to be lifted. Russian demand for engineering thermoplastics is said to be growing by an estimated 15% per year.

China is on the verge of overtaking Western Europe in acetal resin growth – projected at around 8% per year for the next few years. With demand at 144,000 tons, several new plants underway as jv's with Ticona and others will add substantial capacity next year.

A new trade organization has been established by three leading sheet extruders. Called the European Performance Co-Extruders Association (EPEX), it is comprised of Senoplast Klepsch, Athlone Extrusions and British Vita (Dow Europe is an associate member). It is a sector group set up to address regulatory issues affecting ABS/PMMA co-extruded sheets and to ensure product quality – similar to the group set up previously that dealt with PC sheet.

Machine Tool consumption, an indicator of manufacturing activity, was up 75% in September 2004 – in year over year comparisons; auguring well for industrial activity going into 2005. Concurrently, the major industrial distribution companies such as Grainger and MSC are reporting significant sales and profit increases – MRO product consumption is also up in 2004 versus 2003, further enhancing market penetration for many in our industry.

PRICING: DuPont Engineering Polymers announced price increases averaging 9-11 cents per pound for nylon and acetal and 4% for specialty products such as LCP and polyimide – effective December 1, 2004 in North America. Previously Ticona had announced similar price hikes effective November 15 in Europe. Bayer's increases in acetal were effective November 29 in North America. Similar moves were made in the polyolefins family of resins. We now have seen double digit increases in 2004 across the broad spectrum of materials. We expect this to moderate somewhat in 2005 with only single digit spikes. Once again benzene is the culprit as well as highly increased demand, especially in the case of PC where, in Europe, Bayer has sold out of PC and placed customers on allocation. Demands placed by the DVD market specifically and China generally are contributory. Look for further upward moves in PC resin and sheet. Lucite International will increase the price of its cast acrylic sheet by 400 Euros per ton in Europe, Africa and the Middle East, effective January 1, 2005.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Advanced Materials (GEAM) has moved the Insulgard product line out of GE Polymershapes and placed it with GE Structured Products, where it can now be made available to other GE Plastics sheet and film distributors.

Klockner Pentaplast has announced new high performance thermoforming films in the PVC family... an addition to their line of rigid films of PP, HIPS, PVDC and polyester.

The jv between Piedmont Plastics and Regal Plastics West is expected to close in January 2005.

Could have an interesting effect on GE Plastics Distribution's line up.

Makrolon® WG (window grade) sheet is now offered by Sheffield Plastics, a Bayer company, in thicknesses

from 0.750 – 2.000 inches and exhibits high clarity as well as dimensional stability, important for fabrication applications. Also on the PC sheet front, GEAM introduces Lexan® LI 1911R clean room PC sheet, said to significantly lower outgassing.

Quinn Plastics will be the new name for Barlo Plastics, effective January 1, 2005. The Quinn Group, headquartered in Ireland, is now Europe's leading supplier of transparent plastic sheet, including MMA, PC, and PETG and has facilities in Germany, Spain, France, Slovakia and the Czech Republic.

Glastic to close Ohio plant in June of 2005 and move production to Michigan and Mexico City.

Ticona introduced the first engineering thermoplastics fuel cell – made of LCP and PPS.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Dyneon LLC, a 3M company and Meilan Group, China based, have agreed to form a jv to produce PTFE products in China for both Dyneon and Meilan – said to be one of the world's largest PTFE manufacturing ventures.

Zeus, Inc., U.S. based provider of precision extruded tubing has expanded production capacity and now has 85,000 square feet of space.

Cope Plastics, now with new ownership and management, is said to be on the lookout for distribution acquisition opportunities – primarily in the Midwest U.S.

Laddawn Inc., PE film, bag and tubing manufacturer has expanded into a new plant in Iowa – purchased a 70,000 square foot building. Planning to produce film over 150 inches wide with four extrusion lines.

LANEXESS, the new global company formed from the chemicals and polymers activities of Bayer AG, will begin operating as an independent company in January, 2005. It's Engineering Plastics segment will contain the products that affect our industry.

UK PC extruder Polyex has acquired a majority stake in Victoria Plastics, the UK distributor that trades as Stereon - was itself formed by a management buy-out from GE.

PEOPLE: Dr. Axel Heitmann is Chairman of the Board of Management at LANEXESS.

Bruce Dickinson is new National Field Sales and Marketing Manager of Ensinger.

Charles Waldschmidt has been appointed North America Area Director for Rhodia Engineering Plastics. Quinn Group appoints Patrick Masterson as Managing Director of Barlo Plastics in Dublin – was formerly Quinn's Acquisitions Manager... now will run the company he bought.

INDUSTRY INTERVIEWS: ... continuing our interview with Mal Binnie, formerly General Manager, GE Polymershapes Pacific Rim and Pacific Rim Special Correspondent for this publication.

Q. We understand there is quite a story behind the sale of Cadillac Australia/New Zealand to GE...and the subsequent divestiture to the new owners...tell us about it.

A. I am sure there is but the leaders of MAHanna or GE Plastics would need to tell you that. By contract I am limited as to what I can say about GE Plastics but it certainly appeared to be a defensive move on their part to ensure they did not lose the \$US 80 million sales to Cadillac worldwide in the way they had just lost the Tekra business to Bayer.

In Pacific we offered an MBO but did not get any time with our owners as they were too busy with selling the total package and we were an important part of the Profit line.

Q. Why did GE decide to sell off this segment after only a few years?

A. Who really knows. The original GE plan of integrating Cadillac and Commercial worldwide and keeping the experienced distribution management in place was correct. But this plan only lasted 12 months.

The Pacific was rapidly segmented to the GE country management and product lines closed or lost thus losing the full line distributor concept.

Plenty to tell but I have restrictions.

At the end Polymershapes/Cadillac did not meet the measurement of GE and the competitive distributors

were only too happy to take over.

Q. Who bought it and how are they doing?

A. In the Pacific as Cadillac/Polymershapes operations were scaled down or closed. Agencies were lost, staff went to competitors and Lexan was sold through other competitive distributors. The distribution market continues to flourish but just without Cadillac.

Early this year the origin of Cadillac Plastics in the Pacific, Australia and NZ, was sold to Mulford Plastics who themselves are owned by Impak Pratama, Indonesia.

(This is another story.)

Q. Tell us a bit about the market for plastic shapes in China? Who has market share?

A. The market in China is growing rapidly, as a number of articles you have written described, and with the expansion in Signage, Building, Roofing, Engineering materials, Display, Telecommunications, Printing etc the need for shapes distribution also grows.

Again let me remind you of the potential of the Indian market as it is also on a rapid growth path.

Q. What is the outlook for the Pacific Rim? Is it a distributor or manufacturer's market?

A. The Pacific Rim will always be a mix of distribution and manufacturers going direct, just the same as in the USA and Canada. The manufacturers want control of their output to the large customers and need distributors to service the medium to small. The key to shapes distribution will continue to be the package of materials provided to the customer.

Q. Are there opportunities for both distributors and manufacturers from other continents?

A. As Cadillac/Polymershapes was transitioned from GE Plastics there were lots of opportunities but most of these have been taken up by ex Cadillac staff or existing competitors. However I believe there are still openings for companies that can bring the right products to market and that have good relationships with their suppliers.

Q. What will the role of the internet be?

A. Maybe the question should be computerization but the use of internet for information continues to grow, not to the same extent as in USA but growing all the same. The larger multinationals all demand the sophistication found in their home base and local distributors need to find solutions to service this need.

Q. What advice would you give a marketing person entering our industry today in your region?

A. Contact Mal Binnie and use him as your adviser.

Q. On a personal note, who would you like to come back as, in another life?

A. Ian Thorpe, you should know him he has beaten Phelps, or Steve Waugh a world class cricketer (you probably will not know him). I have enjoyed my Plastics career but sport has much greater returns.

Q. What do you consider your greatest achievement?

A. Cadillac Plastics Pacific Group
1972 Sales \$A700,000 Staff 20
1999 Sales \$A225,000,000 Staff 300

Thank you.

Our best wishes to all our readers for a safe and happy holiday season. May next year bring good health and greater prosperity and peace to the globe.

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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