



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

FEBRUARY 2002

Dear Colleague:

Optimistic – but Challenging! ... this is the prevailing mood in our global industry at the midway point of 1Q '02. An economic recovery is in sight – but the word *challenge* occurs in most of the conversations we have had with business leaders in many countries.

The good news is that in a report dated 1/25/02 from *Purchasing Magazine*, 27% of industrial purchasers said they would increase their materials order volumes in the coming three months and 36% said their order volumes would hold steady during the same time period. The low point for Purchasing's Forward Demand Index was November 2001 when 44% of buyers planned to reduce their order volume for the months of December-February vs 22% who planned increases. Indications are that buyers increasing orders are most likely to be serving automotive, medical and security-related industries. Thus the ground lost after Sept. 11 seems to have been regained.

The bad news is that the excesses of the 1990's boom, notably the surge in corporate debt, still loom dangerously large. That would be a big setback for the world economy which is still overly dependent upon the U.S. recovery which is based on the perception that companies have been quick to prune excess inventories and cut surplus capacity. Japan is sinking deeper into deflation; Europe as a whole (excluding Germany) has avoided recession but does not show vigorous growth potential. Thus the challenges awaiting require a cautious strategy. Note: See excerpts from an interview with Jeff Immelt, CEO of GE, held Jan. 17, 2002 on CNBC, with important comments on our plastics industry – follows on page 4 in our Industry Interviews section.

Looming backstage is the Internet - and E-Commerce! The Internet is not owned nor controlled by any corporation or nation. It is a low-cost system that can connect people instantly – in 2000 it had more than 150 million users in 65 countries and 800 million web pages – and is growing daily. It offers the potential to be the greatest force for social and business change and global understanding in the history of the world by making information available to everyone on the planet regardless of their location. It will resume its evolution and effect on our industry in 2002 and we are already getting reports of successful transactions with resins – and some shapes.

There are some haunting similarities to the recession of the early 1980's ... this is the time for careful planning to be sure finances are solid – to be sure that sales do not drive everything but that growth in new products and markets (security for one) and different operating methods are in place to prepare for the recovery that is ahead. The business cycle lives on!

TRENDS: We have continually heard that finding and retaining good people is one of the challenges for management in our industry. Much has been discussed and written on the subject and consultants abound. We believe that understanding the current generation (“Y” as it’s often referred to), is basic to implementing a strategy for this decade. (Remember that a generation ago there was a 20% drop in the birth rate –thus 20% fewer people currently entering the workforce)

The top 10 expectations of those entering the workforce in 2002:

- Time off versus money – exacerbated since 9/11
- Health insurance – individual vs family coverage
- Training – both workforce and cross training
- Compensation based on competency
- Coaching – a method of leadership vs dictator style
- Corporate culture – feeling part of something bigger and helping the company achieve it
- Reassurance – the need to feel important
- Stress release – offering of employee assistance programs
- Safety and Health – becoming more important than ever

Some help in finding the right attitudinal fit for your company can be found on line at: www.humanmetrics.com which gives a sample of a typical interview using the MBTI (Meyers-Briggs Type Indicator). A good tool for management to upgrade the hiring process.

It is time to change the buzzwords in your management notebook (thanks to C. Hymowitz, WSJ.) Herewith a list of management terms and ideas that are out of fashion and those that have replaced them for 2002 ... OUT: War for Talent; IN: Career Transitioning; OUT: Managing Growth; IN: Leading through turmoil; OUT: Casual Dress; IN: Workplace Security; OUT: Revolutionize or die; IN: Evolutionary change. Watch for some of these terms to creep into written and spoken communications in the coming years.

New capacity for the PP market could arrive in 2Q 2002. PP has enjoyed a growth of over 6% annually and is expected to sustain its growth for the next two years – at 4% annually despite a slowing economy. Capacity increases over the last two years such as the new additions by both ExxonMobil and Dow has brought nearly 1.2 billion pounds per year of new capacity to the market as capacity slowly crept past demand. Additional capacity is planned to come online in 2Q of this year as Phillips begins operations of its new 775 million pound per year unit in NJ(U.S.) using UNIPOL technology.

Five Key Trends to watch for in the supply chain in 2002 – as issued by Pembroke Consulting are:

- Consolidation continues – will in fact pick up with new techniques (“branchizing”?)
- Suppliers fight reverse auctions – by use of counter strategies like alliances.
- Partner Relationship Management software booms – but hype may exceed reality.
- E- procurement initiatives stall – buyers will concentrate purchases with fewer suppliers.
- Internet’s impact on distribution channels begins to clear – online ordering will continue at the expense of phone, fax and EDI orders, but still only 15% of transaction volume. Yet 50% of buyers in the supply chain will primarily use the internet for communicating with suppliers as to order tracking, inventory checks, product information and order accuracy.

ISM Forrester Research, on Jan. 16, 2002, released a first-of-its-kind report that tracks online activity for both manufacturing and non-manufacturing companies. The primary finding in the latest report is that the number of large-volume-buying organizations that reported cost savings from using the Internet grew from 28% last quarter to 45% for the quarter ending December 2001. Respondents reported purchasing 9.5% of their indirect materials over the Internet – an increase from last quarter’s 7.1% usage. The report also revealed that 53% of the large-volume buyers consider the Internet as either very important or critical to their 2002 plans.

PRICING: PP price increases (.05/lb) are being implemented by Basell, effective Feb. 1. Also scheduled to rise are prices for PVC and PS, which have exhibited lower pricing trends during the past year. With inventories at almost record lows, this appears to be a move with better than average chance for success, despite declining sales. On the ETP front, ABS and nylon's prospects are for static pricing in 2002 – as are PC and acetal which reflects softness in sales.

The Sheet Business Index (courtesy Mountaintop Economics-ME) is showing a four month consecutive gain and is an early indicator of activity in plastics markets – it was one of the first to turn down in 2000 and rebound late last year. Annual production of sheet is forecast to rise 6% in 2002 after a low point of 2Q 2001. The Film Business Index (also thanks to Mountaintop Economics-ME) is likewise expected to grow 6% in 2002, after exhibiting a pattern similar to sheet as above.

The Pipe Business Index (ME) on the other hand is expected to show a vigorous 10% growth in 2002, with PVC's growth offsetting a decline in HDPE – strong construction markets will drive this to levels beyond recovery in 2000-01- to record levels.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: ChemConnect acquires rival e-marketplace firm CheMatch – together they accounted for over \$4 billion in Web-based materials transactions in 2001, including the shapes auction of GE Polymershapes. A new jv acetal plant in China is formed between Polyplastics Co.Ltd (Daicel Chemical), Mitsubishi Gas Chemical and Ticona – scheduled to come on stream in 2004 with a 60,000 metric ton capacity.

Persistent speculation abounds regarding a major merger between two unnamed distributors

DISTRIBUTOR/MANUFACTURER BRIEFS: W.W. Grainger will conduct a public inventory reduction auction of new but discontinued merchandise on Feb.1 in Ellwood City, PA (US). More than 4000 items valued in excess of \$3 million – may include some plastics items. Physical auction vs web-based as GE did. Nova Chemicals opens styrenics center in Netherlands; states that Olefins, Styrenics businesses report loss for year 2001. Plastic Molding and Fabricating Magazine stops publication. Quadrant tripled net sales and doubled cash flow from operations for 2001 compared to previous year, led by acquisitions of Engineering Plastic Products (EPP) from DSM – sales in composites and flouroplastics core businesses rose 4%.

BASF cuts styrene output in Germany, at its jv plant with Basell.

Plaskolite expands its Zanesville, Ohio (US) plant with an additional \$8 million investment on top of \$18 million in 2000 – for acrylic sheet and mirror production.

Dow Chemical reports lower sales and earnings for 4Q 2001 with Performance Plastics off 5%.

Bayer will set up a major PC plant in India, with a possible 100,000 m.t. capacity.

GE Plastics eliminates 166 jobs (11% of work force at its PC plant in Mt. Vernon Indiana), claiming sales down 10% or more in 2001.

The 9th Hong Kong International Plastics Exhibition will feature film, pipe, sheet and FRP materials – to be held March 22-23, with 40,000 visitors expected.

GE Polymershapes said to close Plasticrafts, Denver; Flexlite (Indiana) and Boise Idaho branch.

Ensinger Industries announces formation of Ensinger-Hyde Distribution Division – the final step in the integration of its acquiring of A.L. Hyde with responsibility to market engineering plastic stock shapes from 3 U.S. facilities.

F.A.S. Plastics (formerly Engineering Block Sales) has shut down its Block division in Indiana and is selling off equipment and inventory.

PEOPLE: Eastman Chemical appoints David Speicher as Regional Business Manager, Europe, Middle East and Africa, Specialty Plastics Business. Gerd Ruland is Sales Manager and Bert Heijne is Market Development Manager. Twelve senior managers, formerly of Commercial Plastics, reportedly take early retirement package offered by GE Polymershapes.

INDUSTRY INTERVIEWS: ... continuing our interview with Dr. Phil Griswold, Vice President and General Manager, Specialty Chemicals, Eastman Chemical Co. held at K Fair in Dusseldorf, Germany in late October 2001.

Q. Provista is one of your newer, faster growing products- where and why has it been successful, and who is running it?

A. It is our resin of choice for extruded profiles and has grown very fast, especially in Europe, as an alternate to PVC, which as you know is out of favor there. It offers higher productivity to the extruder and gives us another niche product – a companion to the sale of copolyester sheet. In addition, it meets our goal for our products to be environmentally responsible. I would rather not name names of extrusion companies running it except to say the list is growing.

Q. Do you see copolyesters conflicting with PC sheet manufacturers and distributors who are also your direct and/or indirect customers?

A. Copolyesters are complimentary to the sale of that type sheet – an alternate to PC if you will. This niche market is growing rapidly and is certainly a companion in the marketplace to other transparent thermoplastic sheet products.

Q. What do you estimate your market share of copolyester sheet compared to PC and MMA?

A. We believe we have less than 5% of the available market for this type of sheet – but it is growing much faster than the others, both in thin and thicker gauges.

Q. What advice would you have for a person entering the plastics industry today?

A. Learn what makes money for your company and don't let obstacles stand in the way. Be persistent and curious. I believe we at Eastman have created a better alignment between the technical side of the business and the marketing end – we've broken down the barriers and that has contributed to our success to date.

Q. What would you be doing if you weren't doing this?

A. I've been with Eastman for over 20 years, started as a researcher and then went into manufacturing ... I've always been interested in helping people – and in medicine, so I'd probably be doing something in medical research.

Thank you Phil.

Jeff Immelt on CNBC's Business Center – 1/17/02—6-7.30pm (Excerpts below, courtesy GE)

Herera: One of the spots that I'm sure you would like to see more growth is the plastic side of the business. Can you tell us how that's going to do...we haven't seen the kind of recovery in the economy that some people thought we would. How does that impact the plastic side of things?

Immelt: Plastics is one of the best leading indicators we have at GE because its usage is pervasive across the economy. About a third of our plastics volume goes into the electronics and telecom industry, so we haven't seen that pickup yet. Plastics has stopped getting worse, so it's stabilized at a low level. Inventories of our customers are very low. When the economy picks up, we'll see it in plastics in a very rapid way, but we haven't seen it yet. That's made us more cautious, I would say, about 2002 than we would feel if we had seen the plastics business actually start picking up.

Herera: Would you disagree with those who are looking, Jeff, on an economic basis for a recovery in the overall economy by mid-year, given what you just mentioned in plastics?

Immelt: Sue, I'm just a business guy...but in the microeconomic sense, we haven't seen a pickup yet in some key industrial businesses. Until I see a pickup, its very difficult to predict a second half recovery. That's not how we're doing our business planning – we're doing it as if 2002 is going to stay tough the entire year, and if we get an uptick in the second half, all the better.

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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