



GLOBAL PLASTICS LETTER

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“Forecasts for Plastics Management Decisionmaking”

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Dear Colleague:

Happy Palindrome Year – 2002!

Whatever happened to the global energy crisis? Last spring predictions - and yes the price of gasoline seemed to prove them, were that unless the U.S. and Europe found new sources, that economic growth would atrophy. The market, it turns out, took care of matters as the price of oil and thus gasoline has plummeted. After the economies of Asia collapsed in 1997 and the fallout spread, the price of oil fell to about \$10 per barrel by late 1998. On Sept. 20, 2000 it rocketed to \$37.20, the highest level since the Gulf War of 1991, only to tumble again in 2001.

OPEC is now greeting 2002 with talks of cutting production leading to increases again. A target of \$22 to \$23 per barrel seems imminent (oil prices ended 2001 at \$19.84/barrel) and this could put pressure on polymer prices to once again begin to climb jeopardizing a recovery in plastic markets now looking at a 3Q 2002 timeline. With plastic shapes inventory at record lows as we enter 2002, higher polymer and monomer prices foretell a slower recovery – buyers will be reluctant to commit to large purchases at elevated prices and will be driven to auctions and the resultant pressure on competitive prices and the slowing of buying to replenish inventory.

Meanwhile the oil producing countries in the Middle East such as Saudi Arabia, Algeria and Iran suffer from the “resource curse” – although rich in natural resources, they are poor because dependency on natural resources such as oil makes a country less likely to invest in manufacturing. When a country like Saudi Arabia is flush with natural resource money, everything becomes more expensive including labor and thus impedes manufacturing growth.

It also depresses entrepreneurialism – since it costs almost nothing to get a barrel of oil out of the ground, the profit margin is like no other business in the world and the ruling class pockets it with no incentive to help develop other industries.

Thus the curse continues as the masses in these countries live in poverty and oppression surrounded by wealth and luxury. Which brings us to the long term curse of oil – the threat of terrorism to disrupt the oil supply in the Middle East. This is the scenario that pervades the cautious optimism that our industry is bringing in with the New Year.

There are glimmers of good news on the economic horizon. Construction is holding up; Auto production is at record highs; very low inventories point to a pickup in production; inflation remains low globally; security and biotech industries are running at full steam; new products developed during the past 8-10 years of boom times are about to hit the marketplace; e-commerce is growing at a more reasonable and healthy pace ... and business confidence is returning.

Great waves of optimism and pessimism are what drive major economic fluctuations. When businessmen are feeling excessively optimistic, as they were during the late 1990's, they will build more factories and expand capacity regardless of the business conditions, and all this investment will help keep the economy expanding. But when something happens to puncture the buoyant mood – a stock market collapse, say, or a terrorist attack, or, worse, one following the other – the consequences can be calamitous with businesses suspending investments. The return of confidence will reverse the uncertainty which is at the heart of the current economic situation.

TRENDS: Key trends in distribution to watch in 2002 ... consolidation continues; suppliers fight reverse auctions; partner relationship management software booms; e-procurement initiatives stall; and the Internet's impact on distribution channels begins to clear. (courtesy of *Facing the Forces of Change: Future Scenarios for Wholesale Distribution* – Pembroke Consulting for NAW). We urge you to read this report – from the IAPD Library or NAW.

Keep a watch on the new Euro which started this month as the uniform currency of most European nations – it should come closer to being at par with the Dollar and subsequently aid in the global trade of plastic shapes. Export opportunities now abound with and between the 12 Euro trading partners.

We wrote last month about the plastic sheet auction (Teflon rod was subsequently added) held by GE Polymershapes – the results appear to be able to be seen in “Cyberia” (a name from the *Dictionary of the Future* that means... that vast area of cyberspace that produces few results for e-commerce).

We recently attended Dow Plastic's annual press briefing in N.Y. and caught some trends from one of the globe's largest producers of PE, PS, ABS, PU, and PC – actually the world's # 1 producer of PE and PS. We came away with some important forecasts affecting trends ...

Dow reported 2001 as a “challenging” year; one that saw sales before acquisitions (Union Carbide) fall 3% from 2000 results (at \$14 billion). The outlook for 2002 is for moderate (low single digit) growth compared to 2001 results. Investment will total one billion dollars in 2002, most of which will be for new products and materials – not for new capacity. Some of the new products and markets are polymer light emitting diodes; engineering thermoplastic alloys; semiconducting dielectric resins; advanced resins for the ITE market; engineering thermoplastic PU; and crystalline polymers.

Target markets are: information technology equipment (ITE); automotive; appliance; electrical and electronics; medical and sheet products.

Dow is a major producer of PE for thermoplastic pressure pipe – more than 6.2 million miles of pipe of all materials were installed worldwide in 2001. In 1977 1.5 billion feet of TP pipe was installed in N. America – by 2000 that annual number had grown to more than 5.5 billion feet ... and the outlook is for continued double digit growth in this decade; made from PVC, HDPE, LDPE and PP.

Dow's Engineered Films Business produces PS films for window applications; PO films for adhesion and automotive; PE films for industrial and barrier applications, and of course Saran for packaging and consumer markets. This is a relatively little known but fast growing part of the market basket of products from this world leader in plastics.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Solvay of Belgium closed on its previously reported (Dec. 2001 Global Plastics Letter) offer to acquire the Fluoroplastics business of Ausimont from Montedison. The deal valued at 1.3 billion Euros makes Solvay the world's second largest producer of fluorochemicals, just behind Dupont.

Also as previously reported but now official is GE Plastics purchase of LNP Engineering from Kawasaki Steel of Japan. This move gives GE a position in nylon resin and compounding that the aborted Honeywell deal did not produce for them – LNP has annual sales of \$285 million with 1000 employees worldwide in nine plants and the deal makes GE Plastics number two in compounding with \$825 million annual sales. This was a hands-on first major deal for Jeff Immelt, new CEO with lots of years experience in GE Plastics. Bayer AG in Germany sells three businesses, including a jv with Degussa and splits into four units, one of which is Polymers, to be run as a separate entity, making it easier to find partners and form alliances. The import of these moves will definitely be felt by the plastic shapes industry in the next several years.

Sumitomo Chemical and Nippon Shokubai swap businesses, with Sumitomo turning over its acrylic acid business to Nippon and receiving in return Nippon's MMA monomer business – this to affect acrylic sheet exports from Asia to Europe and N. America in the coming years.

DISTRIBUTOR/MANUFACTURER BRIEFS: Many former senior Cadillac and Commercial personnel took early retirement from GE Polymers in December – details are forthcoming as well as possible announcements of branch closings. Could purported slowness in shipping from Westlake Plastics portend difficulties? On the other hand they recently acquired an extrusion company in Mountaintop, Pa. and announced a new line of sheet and rod with antimicrobial protection called AgION.

HPG International files Chapter 11 bankruptcy - but operations continue at its Pa. (US) plant.

Performance Pipe, unit of Chevron Phillips closes an HDPE plant in S.C. (US)

Correction ... in a previous issue we stated that Curbell Plastics closed branches in York, Pa. and Erie, Pa. – for the record their Erie, Pa. (US) branch is open and doing well – we regret the error!

Eastman Chemical launches KELVX. Additionally, several new products planned which will affect sheet business (see Industry Interviews on following page). Plastic Molding & Fabricating Magazine shuts down.

PRICING: At press time, several major resin manufacturers (Dow, Atofina, Chevron Phillips and BASF) have announced price increases of 3 cents per pound for PE and PS – none on PP. This is a traditional time of the year for these moves and their ability to stick is very much in doubt given the state of the plastics economy at Jan. 2002. Prices for nylon remain stable with supply and demand in balance, despite a 10% slip in 2001 sales – with demand sure to rise in the next few months, there is sufficient capacity in place to hold at current price levels through 2Q 2002.

PEOPLE: Nani Baccalli, formerly GE Plastics Americas head, promoted to President and CEO, GE Europe. Gerry Burnett of Laird Plastics moves to Business Answers International. Jeff Howsam, GE Polymers joins Piedmont Plastics as Regional Manager. Greg Berry also becomes a Regional Manager at Piedmont. Also at GE Polymers, several senior executives including Dick Bilello, George Barber, Gary Chapman, and Pete Dixon take early retirement; John Kramer moves to upper management position.

WEBSITES OF INTEREST: Last month we mentioned a website specifically for shapes and due to a typo it was incorrect – the correct spelling is: www.plasticsrendezvous.com – the “z” was omitted. Other new websites of interest to our industry are: www.e-chemmerce.com and www.polymerplace.com.

INDUSTRY INTERVIEWS: Dr. Philip Griswold, Vice President and General Manager, Specialty Plastics Business Organization, Eastman Chemical Co. Phil, 54, joined Eastman in 1977 and has held various positions in research and development before running the Flexible Plastics Business as vice president prior to his current position. A graduate of N.C. State with a Ph.D. in fiber and polymer science, we interviewed Phil at the K Fair in Germany in late Oct. '01.

Q. How do you see the business climate in 2002?

A. The Specialty Plastics Business of Eastman which consists of resins for sheet and films is holding up well as 2001 winds down – shrink films (Embrace®) for packaging are doing well while copolyester resin for thick sheet softened. Europe and Asia are doing quite well and we expect that to continue into 2002 with double digit growth. We expect to achieve this growth through the introduction of new products such as Eastar Bio® copolyester biodegradable polymer and by product differentiation and innovation – both for injection molding and sheet markets. Our Specialty Plastics Business represents about \$600 million of the more than \$10 billion annual sales of all the Eastman Chemical Businesses.

Q. Any other new products you can talk about that will affect the sheet business?

A. Yes, we will introduce, in 2002, KELVX™ Hi Temp copolyester which will produce an easily thermoformable sheet with the same UV resistant properties as our standard product – designed for Skylight and Outdoor Sign Markets as well as environmental heat applications.

Q. Can you give us a breakdown of the sales of Eastman's Specialty Plastics business?

A. The U.S. represents about 60%, while 40% goes outside the U.S. – the fastest growth is in China which will probably change the mix in 2002 to 50-50%. We have copolyester plants in the UK, Malaysia, as well as the U.S. We are focusing on becoming the world leader in copolyester. In addition the Embrace shrink film should grow 20% next year since it is an environmentally preferred option to PVC.

Q. How do you see the growth rates and growth markets?

A. We see Europe growing at 10% or better; China at 20% or better and the U.S. at under 10% .

Q. Who are some of your key converters of copolyester?

A. I would rank Spartech and Sheffield/Bayer as among our top U.S. customers with Barlo in the UK and Makroform/Bayer representing our key extruders in Europe. In Japan it is Tsusanaka and Takoron, while in China, Shanghai and Hului are the leading manufacturers of sheet from our resin.

Q. You've made a great commitment to the sheet business, in fact the largest effort since Rohm and Haas in acrylics and GE in polycarbonate – how and why have you done this?

A. Well, it started about 10 years ago with a multi million advertising and public relations budget, which has continued to this day. By the way this has been the largest advertising budget of all the Eastman Chemical businesses. The strategy was to make a major branding commitment for our product offerings to go beyond just copolyester but into all the brands such as Spectar®, Eastar®, Provista® and 12 others, including the newest products that we have been discussing for extruded sheet, profiles, films and injection molded applications. This effort has produced the results that we have talked about and will continue to drive our future growth.

... to be continued in the February 2002 issue.

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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