Mel Ettenson's GLOBAL PLASTICS LETTER
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"A World of Plastics Information"

JANUARY 2005

Dear Colleague:

Breakout Business Beginnings?…Now for our annual look ahead: This should be the best year of this century, certainly since 2000, relating to sales and profits in our industry, despite persistent inflation. We expect raw materials price inflation to be at *only* single digit rates, with sales and profits set to rise at high single digit rates.

Note: In our January 2004 issue, we forecast:
Correctly:

- Sales and Profits at double digit growth
- Distributor sales up 9%; Manufacturers up 12%
- Distributor profits up 11%; Manufacturers up 15%
- Weak U.S. dollar

Incorrectly:

- Crude oil prices likely to weaken – actually prices rose to record levels and will continue this trend in 2005.
- Resin prices, especially polyolefins, to rise at single digit rates – actually rose at double digit rates – single digit rises are expected in 2005.

A look back at 2004 offers some insight into the future…2004 was a year that saw huge increases in the price of oil and natural gas and thus all petrochemicals. Growth in 2005 will be decided by stability of feedstock prices which affect the profitability of converters who are squeezed by raw materials suppliers as well as end users.
Some regional forecasts: Middle East: to become a leading producer of resins; North America: to see further consolidations; India: capacity to expand and allow for exports (especially to China); China: continued dramatic growth and expansion; Europe: slowing growth; SoutheastAsia: uncertainty due to Tsunami disaster (expect sudden surge in PE demand however, primarily in film for waterproofing, cadaver disposition and temporary housing).

TRENDS: Direct mail is very much an old marketing idea whose time has re-appeared due to information technology advances – data-mining software makes it easier and cheaper to customize mailings, increasing the chances for that sales letter, flyer or catalog to be read and result in a sale. When viewed against the backdrop of "do not call" and "do not spam" initiatives, this old marketing tool has new legs.

Expect steel, nickel (thus stainless) and chrome prices to edge up again this spring, matching last summer's record prices – stainless up U$200 a ton to $3500 a ton, opening up more plastic applications. Copper prices just attained their 15 year high at press time.

For a comprehensive and thoughtful outlook of trends affecting our industry, results of a recent survey of U.S. purchasing and supply executives (conducted by the Institute for Supply Management) are summarized in the December 25, 2004 issue of *Modern Distribution Management* – we highly recommend this report, available at www.mdm.com. One key finding is that 69% of purchasing managers expect prices to rise an average of 4.4% in 2005.

A new report " The Life and Death of a Distributor Agreement" is presented in the December 2004 issue of *Industrial Distribution* at www.inddist.com . Some highlights are: the language used during the agreement's conception is as important as the renewal conditions and the circumstances under which the agreement can be terminated, and for every agreement there is a birth, life and death. Read this for great insight into a subject that has new meanings in this decade, especially with consolidation accelerating and with most distributorships (78%) still family owned, according to a recent *Industrial Distribution* survey. Industries in which distributors sell is also outlined in its 58th Annual Survey of Distributor Operations – Construction is Number 1 for all wholesale distributors.

Some highlights of Pembroke Consulting's "Wholesale Distribution in 2005" report of December 15, 2004:

- Strong Distribution rebound of 2004 will carry into 2005 although growth will return to historical ranges
- Pricing pressures will ease for many segments
- Chemical and Plastics Distributors had US$67 billion in revenues from Q4 2003-Q3 2004
- Represented 2% of total U.S. wholesale distribution
- Wholesale Distribution revenues to rise 7.7% in 2005

(for more details go to: www.pembrokeconsulting.com)

According to a report from Plastemart, China's polymer consumption by 2006 (just one year away!) will make it the leading nation on the globe. Currently China's ABS demand exceeds its capacity by 400%. Somewhat lower delta statistics exist for PE, PP,PS and PVC.

Cycloolefin copolymers (COC's) are one of the first new basic product innovations (long overdue) to emerge from an improving business climate by manufacturers of plastic resins. They are typified by very high melting points and insolubility in common organic solvents and heretofore difficult to process. Now Ticona has developed the techniques to produce this crystal clear, amorphous, engineering thermoplastic polyolefin material at a practical cost. Worth watching for future groundbreaking applications as shapes are developed for medical, optical and electrical applications.

Makrolon PC gray-tinted transparent louvers are now on the Mercedes-Benz A class car, replacing sheet metal due in large part to high stone impact resistance in addition to its transparency. In another auto application, formed copolyester sheet is being used as a bubble-shaped passenger compartment in the Osmose City Car, now running around the streets of Paris. A single thermoformed sheet forms the windscreen, roof and rear window.

PRICING: Here we go again!…the year starts off with MMA polymer increases of US$0.08 per pound effective Jan. 17, 2005. which follows a 12 cent per pound hike for MMA monomer in effect Jan. 1, 2005. MMA sheet has already gone up recently and another increase seems certain.
ABS is up this month by 0.20 Euros/kg in Europe, as well as PC by Bayer, and nylon extrusion grade prices were raised by BASF, also effective the first of 2005, in North America. Eastman takes co-polyester prices up globally, by US$0.09 per pound effective Feb. 1, 2005, maintaining their delta with PC and MMA. Add PE, PP and PVC to the list of resins going up as 2005 dawns – only PS is resisting this upward trend.
Quadrant just raised shapes prices across the board.

DISTRIBUTOR/MANUFACTURER BRIEFS: IAPD recently conducted a membership survey which included a question as to where resources should be spent – members were given several choices and the number one choice was: "Develop a comprehensive plastics training program for distributor salespeople" followed closely by "Promote use of Distribution as the primary channel to Market", "Educate engineers and specifiers to consider plastics in their applications" and "Develop material selection software".
Total Plastics opens new branches in Trenton, NJ and Worcester, Mass.
AIN Plastics, div.ThyssenKrupp Materials, re-opens branches in Tampa, Fla. and Lancaster, PA.
Bayer Films Americas becomes a division of Sheffield Plastics , a Bayer Material Science Co.
Adds PC films to its existing PC sheet line offering.
Quadrant EPP now offers extruded acetal co-polymer stock shapes in a range of 7 standard colors, in addition to black and white, all FDA compliant, made to order with low minimums and short lead times. Good for color coding acetal applications, available on a global basis.
Magee Plastics has developed thermoformed PPS sheet based on Ensinger/Penn Fibre's 1/8 inch sheet extruded from Ticona's Fortron® resin.
Spartech's fiscal 2004 year sales topped US$ 1 billion for the first time – profits rose 23%.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:
Solvay announces major expansion in polysulfone specialty polymers and will triple its existing Radel® PES capacity – to be online in 2006 at an undisclosed location.
Polyex, the UK based PC extruder, has bought a majority interest in distributor Stereon, which was formed by a management buyout of the company from GE in 2003 – another Lucite-type initiative which will continue this manufacturer forward integration movement?
Athlone Extrusions of Ireland has been bought out by a management group from Quinn Group – it originally was part of Barlo… extrudes PS, ABS and PMMA sheet and has sales offices in the UK and Netherlands. Purchase price said to be 55 million Euros.
Bayer Material Sciences and Teijin Chemicals of Japan have signed an agreement to supply each other with specific PC resins on a regional basis - Makrolon® and Panlite®, respectively. The companies each have their own plants under construction in China.
British PVC strip manufacturers Powerkit and Extruflex UK have consolidated their production in Bristol, UK. Extruflex is based in France.
Seven orders for PVC sheet extrusion lines have been placed with Cincinatti Extrusion GmbH – for foamed PVC sheet in the U.S. and other type PVC sheet in Asia, Russia and the Middle East.

PEOPLE: Poly Hi Solidur announces following changes: Jay Finch, president, has retired and replaced by Mark Yde as President, Poly Hi Solidur, Inc. Harold Epps becomes President, Poly Hi Solidur Americas and Kobus Boshoff is new managing director, Poly Hi Solidur South Africa.
Thermoplastic Processes has named Mary Hyde it new VP and National Sales Manager.
Total Plastics has appointed two managers for its newest branches – Irwin Edelson, Trenton,NJ and Mike Ruddell, Worcester, Mass.
Gary Rogers, formerly President, GE Plastics and Vice Chairman, GE, named to the board of directors of W.W. Grainger – could be a harbinger of Grainger's growth in plastic shapes.

INDUSTRY INTERVIEWS: Mike Willoughby, President, Warehoused Plastics Sales, Scarborough, Canada. Mike lives in Toronto, Canada with is wife Gayle. We interviewed Mike at his office in Canada via e-mail.

Q. How's business in Canada these days?
A. Business was flat in Canada last year. Traditionally, the Canadian economy lags behind the US by twelve to eighteen months. So, when the US economy cools down the Canadian economy will still be in high gear. I expect Canada will have a strong last quarter in 2004 and a solid 2005.

Q. To what do you attribute your success to…other than superior management?
A. People! Over the years I have been so fortunate to be surrounded by so many great people at Warehoused Plastics. The feeling of team spirit, working towards a common goal, is what makes going to work each day a blast. I also feel being involved with IAPD has helped myself have a better understanding of our global plastic market. The conventions and meetings over the years have allowed me to meet and appreciate the dynamic people that make our industry so vibrant. The wonderful byproduct of our organization is the long lasting friendships that are formed. Gayle and I have been so lucky in this regard. Of course, Gayle has been a huge part of my success too. We have been married for 35 years and she has always supported me in the day-to-day decisions to be made.

Q. Tell us a bit about your background- what was your first job? What's the story behind Warehoused Plastics?
A. Warehoused Plastics was my first job. My friend and mentor Garland Whately founded Warehoused Plastics in 1958. Garland was a family friend since the early 1950's and he would always go out of his way when I was young to take me on fishing and hunting trips. I became the son he never had. In the spring of 1967, I had just about completed my schooling and was destined to join the new Nuclear Hydro Project. Garland approached me and asked if I would be interested in joining Warehoused Plastics. The conversation eventually centered on salary. Garland offered me $1/hour ($40/week). I told him all my friends that have taken positions at the hydro project were making $85/week. I will never forget his response, " At the Hydro, you will only be a cheque number. But, at Warehoused Plastics, one day you will be writing your own cheque". The rest is history. I have been involved with this industry now for thirty-seven plus years and I would not change a thing.

Q. How have distributor-manufacturer relations changed in the last 10 years? What's the biggest challenge in the future?
A. In our case, I believe relationships with our manufacturers are stronger than ever. Warehoused Plastics has always been loyal to the manufacturers that have supported us over the years. I do, however, understand the tension that exists amongst some distributors and manufacturers because of lack of trust, on-line bidding, and sometimes a lack of respect for each other. The biggest challenge for the future is to strengthen these relationships and, in some cases, bring the larger customers into the equation. Today, the lack of margins could produce more three way deals with all parties searching for ways to save each other costs in order to produce better bottom lines. Trust is the big word for this scenario to work.

Q. What impact, if any, has the Internet had on your business?
A. The Internet has provided little in the way of faceless commerce, but that's not necessarily a bad thing considering our industry has always been about people talking with people. We still rely on one-on-one dialog to make business happen. However, email and file sharing over the Internet have proven very valuable to keeping relationships with customers strong – we can exchange ideas faster and keep them informed a lot more efficiently. Warehoused Plastics has gone back to printing catalogues because a high percentage of its customer base have requested it. It seems the average customer still wants a hard copy of information rather than checking our Internet site. I do believe that this will change in the future but now we just want to cover all the bases.

... to be continued in the February 2005 issue

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