



GLOBAL PLASTICS LETTER

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

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Dear Colleague:

With the first half of 2001 in the history books ... recovery from the "soft" economy looks doubtful – at least until 4Q 2001, and more likely 1Q 2002. The combination of record high energy prices and the collapse of the dot-com economy (and thus global stock markets) used up capital resources with little renewable capital becoming available. The interest rate cuts were probably too late and the business cycle, long thought obsolete, kicked in. The psychology of the "r" word once again had its effect on business and consumer confidence. What's in store for us?

Plastic resin prices are all down to early 90's levels ... and once more deflation is setting in.

It's really tough to generalize about this very "Uneven" economy, successor to the "Soft" economy which succeeded the "New" economy. Some industries are hot ... others are closing plants, laying off workers – there is no national recession but the Chemical/Plastics industry is reeling from world demand slowdown, lofty oil prices. Industries that are booming are energy, housing (bodes well for PVF industry); construction, and of course health care. Hurting are the technology and aerospace industries with automotive treading water (not a swimming stroke).

Some positive signs on the horizon are lower natural gas prices - the outlook is to continue this trend while gasoline and oil are stable now but could go higher in the second half of this year.

Effects on plastics industry pricing are beginning to take shape – continued lower prices on commodity resins, once again reacting to supply-demand classic cycles.

The Sheet Business Index (courtesy of Mountaintop Economics) tumbled 14% in March (1990=100) – this followed a downward trend in eight of the last twelve months. The outlook is for much of the same, although forecasts are for some specialty sheet (PETG) to help a slight 4% rise in demand for 2001. All told, a lackluster year as the plastics economy begins to bottom out and demand growth for resins remains slow with manufacturers reducing production dramatically.

Likewise, Plastic Pipe and Film business is also off from previous two year levels, in this first half of 2001 – however the outlook for film (especially packaging) is for an early rebound in 4Q 2001 and begin a real recovery in 2002. Pipe will respond to construction and housing activity which as we previously noted is holding up well – thus we expect a good year for pipe in 2002.

Once again readers looking for more detail and prognostications can go to www.plasticseconomics.com and obtain forecasts for pipe, sheet, and film markets.

TRENDS: Our plastics shapes industry becomes more global as the British Plastic Stockholders Association (BPSA) merges with the European Plastic Distributors Association (EPDA), which in turn shares reciprocating membership privileges with the International Association of Plastic Distributors (IAPD), whose annual convention is scheduled for Sept 12-16 at Nashville TN USA. Even more significant is the commonality of manufacturers in all these groups – many of whose products are now available border and duty free.

Speaking of border free - the US International Trade Association is conducting an investigation into the dumping of PET film, sheet, and shapes imported from India and Taiwan and will hold a hearing on Aug 10 and a decision to levy countervailing duties is due on Oct. 24.

A leading concern of both manufacturers and distributors in this decade just beginning will be Human Resources. ... training a sales force with new skills needed to meet customer demands.

Many distributors have an aging sales force that is extremely knowledgeable with excellent customer relationships built over time. Because of the web, customers know more about product and pricing before the sales call takes place and the feature/benefit presentation, laced with doughnuts doesn't work any more – the knowledge must be applied to the specific problem at the time of the call...thus new skills needed.

Much has been written about CRM (customer relationship management) –but the basics continue to be the capacity to develop close relationships with particularly valuable customers in order to retain, or enhance their business. Remember the definition of “valuable” is different between companies depending on size, profit definitions, and historical data. Companies should instantly use database information to empower salespeople to enhance the customer – the advantage here goes to the “smalls” to level the playing field and pick off a larger competitors discards.

In a recent talk by James T. Ryan, president, Grainger.com, he stated that over 200 internet companies have folded in 2001 – yet Grainger's commitment to e-commerce remains strong with the belief that a wealth of information about each of its products is available on line, thus the processing costs of placing orders by its customers is greatly reduced by saving time.

In addition, customers can track their orders on-line and thus free up CSR time. The tool has arrived – how it is put to use is still management's call and one that must be heeded. For more on this enlightening look at how Grainger has modified its approach to the net – email us at: mettenson@globalplasticsletter.com for a copy of the complete talk given at the Bear Stearns Technologies Conference 5/22/01.

Despite the advances claimed by Grainger, a study conducted by Jupiter Research, which might be entitled “E-Hesitation”, of the corporate purchasing managers that were polled, 46% (the largest group) only expected to buy online from 0-20% by 2002 – top reason (58%) cited was lack of suppliers – there's a long way to go before this is a rote procedure.

Plastics shapes manufacturers and distributors should look closely at the Brazilian market, where trading and alliance opportunities abound despite a currency which trades at record low levels against most currencies – due in part to a booming economy and forecasts that Brazil will be the no. 3 automaker in the world, just behind US and Japan, in 5-7 years.

In Europe sheet production now represents almost 10% of resin consumption and accounted for over 2.7 million tons of polymer in 2000, an increase in demand of 5.2%, despite the fact that the European parliament voted for substitution of PVC, starting with the medical device market.

Watch Dutch distributor, Hagemeyer NV – they are buying up MRO distributors world-wide and now closing in on annual sales of \$10 billion US, which places them in the top 3 global distributors. On the manufacturing front globally, Bayer AG plans to match GE Plastics in PC global capacity share. GE in the meantime, with the failure of the Honeywell (Allied Signal's nylon was in this package to be sold) deal – see below for more on this – must decide if they will add nylon to its plastics portfolio by another acquisition. We believe they will buy the Capran nylon biz from Honeywell now that Larry Bossidy (a long time associate and friend of Jack Welch) is running Honeywell. DuPont's nylon business could also be in play. Should make for an interesting last half of 2001 on the resin fronts.

PRICING FORECASTS: In a word – downward as economies remain stalled – most resins, especially the polyolefins continue to suffer from overcapacity and this could continue into 2002. A few exceptions are PET and PETG. For a detailed look at pricing trends look at: www.theplasticsexchange.com.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: A very busy summer starting with – International Paper signs a letter of intent to sell its laminates business (Micarta) and its graphics (foam boards) business to Panolam Industries, CT – this involves 13 plants (10 US and 3 in Europe) and should close this year. Georg Fischer(GF) AG acquires a 15% stake (could go higher) in Simona AG – a major shapes producer in Germany who also markets its products through Laird's Pinnacle operation in the US. GF could be taking this over and GF is a large customer of Quadrant EPP for PVDF, which Simona also produces. Could produce some interesting tactical shifts in worldwide shapes alliances. A historical study of Georg Fischer AG has just been published in Switzerland by Chronos Verlag in Zurich. Crane Co. (already with a stake in Vycom) acquires Resistoflex (TFE lined piping) based in Germany.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE/Honeywell merger off – fate of nylon and film business that GE Plastics was to have merged with other film and sheet business up in air.

PEEK supply added to with Gharda of India and Oxford Performance Materials of US adding capacity freeing up customers who were on allocation from Victrex – replacement of metals with PEEK picks up pace in the marketplace. PEKK and PAEK products introduced to meet new use demands for polyketone engineering polymers.

Barlo Plastics transfers production of PETG, PS, and acrylic sheet from Belgium to Germany and the Czech Republic and now has nine production locations in seven European countries, with annual sales of \$166.4 Euros.

Bayer Plastics honored by GE Appliances for providing ABS, SAN and PC with a Distinguished Supplier award.

CYRO Industries has a new website to assist fabricators – called *E'crylic Central*, it can be accessed at www.cyro.com.

Solvay and LPW swap laminates biz for film biz – Solvay gets laminates in UK and LPW gets films in Germany.

BF Goodrich Performance Materials changes name to Noveon - a major producer of CPVC.

BASF AG to close 24 plants worldwide because of weakening economic conditions – no details.

Basell NV (jv of Shell and BASFAG) to build 705 million pound HDPE plant in Germany – to be completed by 2003.

Modern Plastics, CT, announced with regret the passing of its founder and IAPD past President, Joe Carbone on July 5, 2001. Joe started this business over 50 years ago, which is now run by the third generation of Carbones. He will be missed!

In late June Modern announced their signing of a purchase and sales agreement with GE Plastics for Lexan sheet – the first distributor to add GE's Lexan sheet product line in over 25 years.

Piedmont Plastics selects Adonix Enterprise Management System to manage inventory, both standard and remnant inventory.

Kureha of Japan increases PPS capacity through new technology, making it the #1 global producer.

Eastman Chemical and Spartech launch their joint marketing venture for Spectar PETG sheet – details were provided at the POP exhibit and conference in Chicago in June.

INDUSTRY INTERVIEWS: Note: Industry Interviews is on vacation this month...in its place we are reprinting excerpts, by permission, from an interview given by Jack Welch, CEO, General Electric – it appeared in the July 2000 issue of *Actualidad Economica*, Spain's leading business magazine, and was conducted by Marti Saballs, its Managing Editor. In view of GE's Polymers shapes new business unit and the recent almost-merger with Honeywell, we thought this would still be timely and an important insight into the thinking of one of our industry's foremost leaders.

Some meaningful quotes:

"People who can't use the internet in a company can be regarded as illiterate – this is the ticket for doing business."

"The model for leadership will still be to have a vision, and to pick very good people. And this isn't done with the internet, but with the gut and the nose."

"In the future, work will be much more stimulating. Power won't be held by one person who knows something...everybody will be able to know everything."

Actualidad Economica (AE): In the movie "The Graduate" the protagonist's father advised him to seek his future in PLASTICS, which is just where you began your career in GE. What would you tell someone who asked you that same question 30 years later?

Jack Welch (JW): *Information Technologies (IT) – they are consuming the panorama but they are just that – technologies – that can be used in any atmosphere; industrial, financial etc. The level of knowledge that one should have in IT is a backbone as crucial as reading and writing have been up to now. But it should be understood that IT alone is not a business ...obviously people have to feel comfortable with these technologies.*

AE: You have always said that GE is an elephant whose objective must be to run very fast. What's an elephant's top speed?

JW: *There's no doubt that all the changes we are seeing are bringing in more energy and if I were smart enough to say how fast it should run, I'd be someone else. It's going to run a lot faster than we could have dreamed.*

AE: Was there a pre-meditated plan to make GE what it is today, using the means that you used?

JW: *What I said in my first speech as CEO in 1981 has turned out to be what actually happened. In general terms, high speed, get rid of bureaucracy, innovation, high energy; the soul of a small company in the body of a big company. That was 20 years ago, and even today we try to behave this way.*

AE: How would you persuade a GE stockholder to maintain confidence in GE without Jack Welch?

JW: *I think that we have leading businesses all over the world, and very well positioned. The internet will be a major change. We have a great team of very energetic people who love what they do. Our employees, many of them company stockholders are our greatest asset. Our growth is expanding year by year. In ten years, or even five years, people will be asking who that guy was who moved so slowly when he was running GE, because the opportunities are that big!*

POSTSCRIPT: Twenty years ago, when Jack Welch became CEO, GE's capitalization was \$14 billion – he will leave with the legacy that GE's market value increased by 3600%!

During that same period sales volume multiplied by a factor of 5 and profits by a factor of 7.

Jack Welch at 33, in 1968 was general manager of GE's Plastics Department, its youngest general manager at that time. He became group executive of the Materials Division in 1973 and rose steadily through many top management assignments culminating in being selected as the youngest CEO in 1981 – as they say the rest is history. As his successor he chose another executive who came from the ranks of Plastics – Jeff Immelt, who takes over in 2001.

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.