Mel Ettenson's GLOBAL PLASTICS LETTER

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"A World of Plastics Information"

JULY 2005

Dear Colleague:

Incessant Inflation Influencing Interest rates? … economists are puzzled by the enigma of long term interest rates remaining low despite inflation caused by lofty crude oil prices now nearing record levels of $90/barrel (adjusted for inflation). The outlook for 2006 is for crude oil prices to average at least as high as this year, despite a slight decline in oil demand as global economic growth slows. The recent move by China's Cnooc Ltd to acquire the U.S.'s Unocal indicates the thirst for petroleum based energy which is both driven by and driving China's economy.

More U.S. manufacturers are opening plants in Mexico and Canada instead of China, India, Malaysia or other cheap labor havens… called *" Nearshoring"* – offers several advantages over offshoring. Transportation is cheaper and faster and proximity to home office management allows for better and quicker problem solving.

There is some relief on the horizon for global shippers – point to point service brought about by cross-border mergers between transportation companies, such as Yellow Transportation buying a Chinese trucking company.

Small businesses can join import-buying groups to reduce costs – being done with consumer products initially; industrial products eventually… plastic shapes someday?
More small businesses (read plastic distributors) are becoming "micro-multinationals", using manufacturing and marketing partnerships to enter foreign markets. Advances in IT, software and telecommunications over the past decade have made it easier for this size company to operate globally, just as the biggest ones have been doing. Of particular note are opportunities in the Indian sub-continent, and other Pacific rim countries … Africa cannot be ignored. The U.S. Commerce Department can help to find partners abroad.

Speaking of India, exports are poised to grow rapidly in the coming years as Indian reforms and economic growth of over 7% a year continue to fuel sales and consumption enhanced by reductions in many tariffs.
Opportunities in Africa, while longer term, hold promise as business prospects are improving with more stable exchange rates and of course a pent up demand for materials such as plastics.

TRENDS: With a spate of mergers and acquisitions pending or announced in the manufacturing sector it's timely to examine options for plastics distributors contemplating selling their business. Among buyers interested are investors, manufacturers (think Perspex Distribution in the U.K.), distributors from other lines of trade (think CED and Laird), competing distributors (think Piedmont Regal) and individuals. Yet many potential buyers do not understand distribution, especially those not in it …it is based on more intangibles than most businesses. The value of customer relationships and the importance of key salespeople are not well understood (think GE and Commercial Plastics) – much of the value of a distributor is invisible. For an excellent treatment of this subject, we recommend our subscribers visit www.nawpubs.org and look for a book they publish called *The Acquisitive Distributor* – well worth reading. If you are one of their subscribers, you can access www.mdm.com and read an excerpt published in the June 10, 2005 issue of *Modern Distribution Management*.

China's demand for Engineering Plastics has grown rapidly in the last 10 years and is expected to continue to do so in the foreseeable future – details available from www.researchandmarkets.com.
A Dublin, Ireland based market research firm that just completed a study on the subject, projecting the next five years of growth in some detail.

Clear acrylic furniture, primarily fabricated from thick MMA sheet is back in vogue and expected to continue through a typical business and design cycle lasting up to seven years. Fabricators both old and new are springing up everywhere with their offerings, led by the venerable Plexi-Craft and Vivre, among many others globally. Catalogs in the home furnishings business are featuring this "new look" and of course prices are up 80% in the last 5 years for finished products, reflecting the rise in MMA sheet prices, especially in the last two years.

New websites relevant to our industry keep coming… lastest is www.talkplastic.co.uk.
Purports to provide people involved with the plastics industry the help they need from others within the industry to solve problems in manufacturing and materials – worth a try.
Another online service is ICIS-LOR's petrochemical index which tracks global trends in pricing of basic feedstocks for our industry such as ethylene and benzenes as well as market movements – can be seen at www.icis.com.

Plastic pipe makers are gearing up for growth as the large diameter pipe market, defined as over 18 inch for HDPE and over 15 inch for PVC is expected to be 208 million feet by 2009, worth US$8 billion. Recent consolidation in this industry is reflecting this 2.4% annual growth.

A macro trend to be noted concerns new technologies that are changing the way workers are connected, wherever they are (think sales people connected with home offices), consists of:

- Wireless gizmos – laptops are passé as handheld PDA's dominate
- Video chat – video conferencing over email and instant messaging, to be available on both cell phones and PDA's
- Web based tools – forget carrying a device at all – key fobs establish a virtual private network for access to email and company data. Like being in the office from anywhere!
- One stop dialing – phones that switch seamlessly between cellular networks and corporate Wi-Fi connections – next will be push to talk and push to video

PRICING: Prices for most raw materials continue to rise – Celanese ups acetic acid, vinyl acetate, and acetic anhydride by $.03 per pound – a precursor to another round of resin increases incorporating these basic building blocks of our most common resins.
Polyolefin futures (PP and LLDPE) are now up over $1000 per tonne on the LME (London Metal Exchange), which began trading these commodities at about $900 per tonne just a month ago – reflecting this trend continuing.
PVC is up slightly while PS dropped a bit …nylon continues its rise while most other resins are stable, perhaps taking a breather before another round goes into effect this fall.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Corporate announces a major reorganization that affects its Plastics Business. GE Advanced Materials is no longer an entity and GE Plastics is revived consisting of its Lexan®, ABS, Noryl, Ultem and other HPM resins business along with Structured Products (think PC sheet and film), GE Polymerland and GE Polymershapes.

A new CEO of GE Plastics is named, Charlene Begley (see People below), succeeding John Krenicki, who moves to the GE Infrastructure group as head of GE Energy. GE Plastics, with 10,000 employees, is now a part of the GE Industrial Group headed by John Rice, new Vice Chairman. Will GE Polymershapes continue to be freestanding or will it become part of Structured Products?

CYRO Industries introduces Acrylite® Corrugated acrylic sheet as part of its "Magic Campaign" group of new products with enhanced visual and functional effects. Many colors and sheet sizes are available in this revival of a product of yesteryear – many structural applications are seen.

Atoglas, division of Arkema Inc. becomes Altuglas International – Plexiglas trade name remains RTP Inc announces long fiber reinforced PEEK compound – said to markedly improve impact strength over conventional unreinforced as well as short fiber product and open up more metal replacement market and application opportunities.

Toray Plastics offers co-extruded film with polyester substrate and a PET surface – allows for elimination of costly corona treatment for printing – called Lumirror PS 10.

BASF has introduced its high speed (the presence of nanoparticles reduces melt viscosity by 50%) Ultradur® PBT resin into the North American market. Applications seen in automotive, electrical and electronics industries.

Arkema is bringing out new mulilayer Kynar® films exhibiting outstanding UV and chemical resistance while maintaining excellent barrier and weatherability properties – competes with flouropolymer films in solar panels as well as other applications and available up to 62" wide.

DuPont's Engineering Polymers unit recently successfully stared up the first HTN high performance polyamide continuous polymerizer (CP) plant. This product is said to offer much improved properties over conventional types 6 and 6/6 nylon, especially impact strength – watch for it in basic shape form next year.

Lucite International has committed to grow its cast acrylic sheet business throughout Europe, Africa and the Middle East. Also building a new plant in Singapore.

AI International Laminates Ltd, a leading UK distributor of sheet, celebrates 25 years with openings of new branches in Scotland and Wales.

Bayer MaterialScience AG touts Marnot®XL GU 35 new printable PC film based on its Makrofol® film line produced from Makrolon® PC resin – finds widespread use in auto industry.

In another Bayer MaterialScience announcement, Peguform Bohemia and Exatec are building a new PC glazing facility in the Czech Republic for production of automotive windows and roofs.

King Plastic appoints Martino Marketing Group as Manufacturer's Rep. for Mid Atlantic (US).

PolyHi Solidur's (see below) Tivar® plate is being used to enhance safety at auto race tracks.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES, AND EXPANSIONS

Breaking news… in a much anticipated (see our May 2005 issue) announcement, Quadrant acquires Poly Hi Solidur from Menasha Corporation for US$82 million, based on sales of US$169 million, two thirds of which are generated in the U.S. With over 1000 employees worldwide, Poly Hi is the largest global manufacturer of UHMW PE shapes and will be part of Quadrant's Engineering Plastic Products (EPP) business run by Co-CEO's Glen Steady and Michael Koch. Quadrant's EPP business will, after closing in August, have sales of approximately 600 million swiss francs worldwide (GPL estimate).

In another UHMW development, Ticona is planning to open its first Asian facility in China in 2007 – planning a 44 million pound plant as part of their 200 million pound global capacity.

DuPont is expanding its Vespel® polyimide capacity by 50% by this October – mostly in parts.

Professional Plastics signs exclusive European representation agreement with SPI Semicon to sell Professional's HPM products such as Vespel®, Rulon® and Techtron® into the electronics and semi-conductor industry in the UK, Austria, France and Netherlands.

Quinn Plastics (formerly Barlo Plastics), UK, has acquired extruders, Polyex and Victoria Plastics, as well as distributor Stereon.

PEOPLE: Charlene Begley, is new President and CEO of GE Plastics – formerly ran the rail unit of GE Transportation and had been Director of Finance, GE Plastics Europe, in prior years. She reports to new GE Vice Chair and head of GE Industrial, John Rice. GE Polymershapes leader, Peter Arvan, reports to her. (Watch for interview with Peter Arvan in an upcoming issue).

INDUSTRY INTERVIEWS: Kevin George, Managing Director, and Alan Sanders, Business Development Manager, Thermotec Plastics Pty Ltd, Australia. Both were formerly with Cadillac Plastics Australia. The interview was conducted by Mal Binnie,our Pacific Rim correspondent

Q. How's business in Australia these days?

A. For our Company it is all about product and service. The Economy is strong. The Building market, whether new or renovations, continues to grow. So we have chosen the correct product/market to enter and develop...Sanitaryware and Building.

Q. Tell us a bit about your background - what was your first job? What's the story behind Thermotech?

A. Kevin G.... my background was originally in Fast Food market, I am Greek and like my tucker, but then I joined Cadillac Plastics Australia in 1986 where I worked in Engineering Plastics before becoming Sales Manager for Victoria and led and developed Acrylic/Sanitaryware sales. 15 years with Cadillac gave me the product knowledge, customer and supplier contact and experience so that when GE Plastics decided to close Cadillac/GE Polymershapes it gave me the perfect opportunity to develop Thermotec.

Alan S.... For more than 15 years I was the General Electric Sheet and Film Manager for ANZ. I worked closely with Cadillac Plastics as my main Distributor in these markets and thus knew Kevin very well. Recently I spent a few years in another Distribution Company EPlas before joinig Kevin at Thermotec.

Q. What is the distributor- manufacturer relationship like? How has this changed in the last 10 years, if at all?

A. This relationship is the key to a successful Distribution business and in a limited market size as that of ANZ exclusivity is critical. The need for close cooperation and understanding has not changed over the 20 years I have been in this industry.

Q. What impact, if any, has the Internet had on your business?

A. If you look at our website "www.thermotec.net.au" you can see we are only just developing in the IT area. In the future we are certain that we will attract new suppliers and customers through our Internet capability.

Q. What are the best new products you have seen in the last 10-15 years? What future products coming along will have an impact on your business? What is needed?

A. For us the Acrylic capped/ABS from Athlone has provided the Sanitaryware industry with new applications that have expanded their business and ours.

Also the Aluminium Composite Materials, ours is ETALBOND from ETEM, have brought new opportunities to the sign, building and decorative markets.

What we are searching for is a continuous cast acrylic of MRC quality to complement our Sanitaryware offering.

Q. What are some of the biggest changes you've seen in our industry during your career?

A. Who would have believed that a company of the quality of GE Plastics would take the leading Distributor in ANZ Cadillac Plastics and close its operations. However this was like a gift for us as it presented the opportunity to develop Thermotec.

Q. Will the industry look different by 2010? If so, how? If not, when?

A. No I believe that we will continue to grow and fill the void left by Cadillac and because we concentrate on personalised service we will do it better than others. So the industry will look the same just with different distributor names. The key continues to be product availability and service to our customers and close cooperation and development with our suppliers.

Q. What advice would you give a new marketing person entering our industry

A. Learn Customer Service, understand products and markets and always remember that suppliers and customers are the key to a successful distribution business.

Q. On a personal note, what do you consider your greatest accomplishment?

A. STARTING THERMOTEC PLASTICS and representing suppliers such as ATHLONE, SYNTEC, RODECCA and ETEM.

Thank you.

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