



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JUNE 2005

Dear Colleague:

Roaring Recovery? Or recurring recession?... we have reports of both happening, although most are experiencing three record months in a row, as the first half of 2005 draws to a close. Some reports however are showing a slowing in May – no trend established yet.

The economic outlook is brighter than it seemed last month – an upward revision of growth in most global economies is for 3.5% this year, despite headwinds from high energy prices and rising interest rates. A pickup in new orders following a slump in March is encouraging businesses to invest – always a precursor of improving sales.

Inflation talk is still around, which is something of a psychological game because expectations of rising inflation are self-fulfilling – buyers who are worried about soaring prices rush to buy, then hoard, which pushes prices up. We have seen some of this in both plastic resin and sheet this year. Some inflation is actually good, helping sustain profit margins and keeping business spending at high levels. Higher interest rates certainly seem to be looming and businesses need to plan for borrowing and financing against this backdrop. In a related issue, the dollar's recent rally is likely to fizzle by mid-summer, especially if the euro stabilizes after its recent drop. The dollar is also likely to decline against Asian currencies in the second half of 2005, when China will let the yuan rise against the dollar – all moves affecting planning for companies heavily involved in imports and exports. Look into www.abipr.com for help in obtaining a foothold in China.

Speaking of China, its Gross Domestic Product will soon exceed that of the U.S., following a 9% gain this year and an expected 7.5% per year increase likely for the next 20 years.

Of even more significance to our industry, China is already voraciously consuming supplies of metals, fuel, petrochemicals and other critical raw materials. For a fascinating perspective on this, read *Three Billion New Capitalists* by C. Prestowitz – includes both China and India – look for acquisitions by companies in these countries to begin in our industry. IBM started this trend by selling its laptop PC business to Lenovo in China. Go to: www.chinaknowledge.com for info.

More trucking rate increases are coming as robust demand strains capacity – average truck rates are expected to rise 5%-7% in second half of this year after a 10% rise in the first half. Ocean cargo fees will emulate trucking rate hikes.

TRENDS: North America could be a net importer of both PE and PET resins by 2009, according to a recent survey by CMAI – with Middle Eastern PE and Asian PET taking the lead. PVC from China will likely follow as its demand (22b lbs) for PVC is expected to pass the U.S. by 2010.

Resin capacity and pricing are in the limelight with the start of futures trading of LLDPE and PP on the London Metal Exchange that began on May 27, 2005. (see Pricing).

Producers participating are Dow, Innovene Europe, Thai PE, Carmel Polyolefins, Equistar Chemicals, Chemopetrol and Reliance Industries, with warehouses in Singapore, Rotterdam and other locations to be announced. This is a financial hedge for resin buyers and sellers (eventually affecting shapes pricing) to gain protection against price volatility. One result of these futures is to provide the first recognized global reference pricing that our plastics industry has ever experienced. Futures also offer protection to distributors of resins, giving them insurance to offer users fixed prices for longer terms – watch for this to affect sheet prices with longer term stability than we have seen recently.

The European sheet market is still growing (according to AMI, Bristol, UK) with 4 million tons expected to be shipped this year to over 700 users – PS, PVC, PET, PC, MMA and PP are the leading products with both packaging and industrial applications accounting for the steady increases across the spectrum of resins.

Germany leads in sheet production and together with France, Italy and the UK, comprise 60% of the market; however Central Europe is growing at twice the rate of the leading countries.

Industrial distribution trends continue with Home Depot Supply targeting MRO and government sector business. It bought Maintenance Warehouse in 1995 and has been actively pursuing national contracts with U.S. government units as well as major defense contractors and has hired more than 1000 sales people to work near military facilities. Additionally, they have made 4 major acquisitions of MRO distribution companies and now offers 55,000 MRO products.

Meanwhile in the Electrical Distribution segment Vanguard National Alliance has been formed to position its 50 or so electrical distributors as the channel of choice for national account contracts covering industrial MRO supplies. Where is the plastics distribution equivalent?

Mini trend: Clear Acrylic furniture is back in vogue!

PRICING: The London Metal Exchange's first ever Futures contracts were announced this month and they are: September 2005 – PP @\$933 per ton and LLDPE @\$937/ton. October and November seller prices were at: \$940/ton for PP and \$945/ton for LLDPE for both months.

Meanwhile, spot prices for PE (up 30% this year), PP and PS have backed off slightly but ETP resins are up single digits this month, as are thermosets, as well as most other resins. Some causes are the backing off of benzene prices, despite stubbornly high crude oil price levels and some slack in demand and the US dollar gaining strength against the Euro and the Yen.

HPM's such as PEEK, PEI and PPS have exhibited the greatest upward movement since June 2003 – PEEK jumped 35%, PPS up 75% and PEI prices have climbed about 50% during the past two years. These are by far the most volatile prices in our industry with no relief in sight.

Pricing trends for the balance of this year will depend on the classic supply-demand ratio.

Continued pressure on prices seems to indicate a continuing rise although at a more moderate rate. Meanwhile prices of other industrial commodities were as follows: Cold rolled steel sheet- down 6% this month; Natural Gas – down 5.5%; Benzene – down 11.5%; Aluminum – down 5% and Copper up 1%, at its 14 year high.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Advanced Materials (GEAM) has declared force majeure on its Ultem® PEI resin after a malfunction at its Indiana (US) plant – filling orders at 40% of the previous three quarters order levels until June 5, 2005. See previous story on pricing jumps of 50% for PEI, *before* this production cutback. Bayer MaterialScience AG is bringing out Makrofol® TP 230 PC film with increased surface conductivity. At the Sheffield Plastics unit of Bayer, Makrolon SL PC sheet is increasingly being used for sign faces.

Lucite International has developed a new 6.8mm extruded acrylic sheet called Perspex® Lenticular, which produces fascinating 3D images for the display industry – it has optical grade lenses (lenticules) running parallel to the length of the sheet that helps produce these novel effects. Arkema has renamed its acrylic sheet unit Altuglas International (the Atoglas name goes away) and is launching Altuglas® Soft Fluo-FX, a special effects, edge lit sheet.

British Vita is closing its sheet plant at Widnes, UK and relocating production to other VTS facilities in Europe. Degussa's Plexiglas unit has developed a low cost PC film for next generation computer discs with greater storage capacity – called Europlex PC film for Blu-ray discs. Acrylics USA, cast acrylic sheet manufacturer in Wisconsin upgrades plant... formerly was the plant run by Ram Products as Innovative Plastics in Michigan.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES, AND EXPANSIONS:

Processing Technologies commissioned an acrylic sheet extrusion line to produce lenticular sheet in China – sizes to be 48 x 96 inches and entire output will be used for outdoor billboards to advertise spirits. Vycom Corp., subsidiary of Compression Polymers is expanding its facilities in Pennsylvania (US) by purchasing a 250,000 square foot building, to produce its AZEK sheets.

Calsak sells its shapes distribution business to Port Plastics, a Blackfriar unit, as is Laird Plastics and Amari Plastics in the U.K.

Altuglas International opens new acrylic sheet line in Bernouville, France, with a 12,000tpa capacity – compensates for the closure of its Rho plant in Italy.

Lanxess goes ahead with an engineering plastics plant in China of 20,000tpa, opening 1Q 2006, and producing polyamide and PBT – to meet demand for ETP now growing at 13% per year.

BASF is expanding its ETP business in Asia Pacific with a new plant in Shanghai, China.

Extruflex UK is new name for merged companies Clearway and Powerkit in the UK – produce PVC extrusions for strip applications in industrial, food and cold storage sectors.

Victrex plc announces the purchase of the UK operations of a Degussa AG subsidiary that produces a key ingredient of PEEK – BDF.

Bayer AG will add 130 million pounds of PC resin capacity by the end of 2005 – spread among plants in US, Belgium, Germany and Thailand.

Swedish PC sheet producer Arla Plast, Europe's third largest producer, is investing 10 million euros in a plant in the Czech Republic primarily to produce hollow sheet for greenhouse use.

PC sheet extruders who formed EPSE, the consortium of producers, added four new members – GE Plastics, Bayer Sheet Europe, Polygal Plastics and Palram.

Sumitomo Bakelite has acquired Vyncolit NV and Vyncolit NA to become the largest global producer of Engineering Phenolics – with 14 plants and 2 Technical Development Centers.

PEOPLE: John Brewer named Site Manager, Bristol, CT, Bayer Films Americas, div. Sheffield Plastics. George Cornelius is President and CEO of Arkema. Don Mastaglio, is President, Acrylics, USA.

Spartech appoints new CEO and President - George Abd, replacing Brad Buechler. New vice presidents reporting to him are David Gorenc – responsible for custom sheet and rollstock; Greg Nagel – responsible for Polycast and Townsend divisions; and Scott Morford – color and specialty compounds.

INDUSTRY INTERVIEWS: ... concluding our interview with Bing Carbone, President, Modern Plastics, Bridgeport, CT.

Q. How do recent distributor consolidations affect a regional distributor such as your self?

A. Mel, we've been in this game for 60 years in 2005 and we have seen and been through it all. The reason we're still relevant in this industry after all those years, is that we understand the need to plan ahead but at the same, time unafraid to adjust the game plan if called for.

I believe it's our company structure and management that allows us to do this so efficiently, whether it is exploiting opportunities when they arise or making the appropriate changes to meet the challenges encountered.

To be honest, I'd have to say it has helped more than it has hurt, but we take all competitors very seriously, and do our best day to day.

Q. As a third generation owner, what are some of the most important sea changes in our industry?

A. While not discounting a single ounce of blood and sweat from what my grandfather and father had to endure to build this business, this plastics distribution business is far more complex and difficult to succeed within.

It's not as easy a business as some people would like to think, and it gets more complicated everyday. I think this single aspect above anything else, is the biggest change I have witnessed, since I've basically been here for most of those three generations. Yikes!

Q. What was the price of 1/8" "Plex" when your grandfather founded Modern Plastics versus price today?

A. Well, I just happen to have a 1968 Modern Plastics Price Catalog handy and yes, it's still holds true – we're basically selling this item for the same price (wholesale) that we did back when Lyndon B. Johnson was President. I'm not sure if that's a good thing or a bad one. Despite it's down and dirty commodity signature, acrylic sheet sales over the years built most of the buildings we distributors now sit in.

Q. How about vital new products that you see changing the shape of our industry (pardon the pun) in the next 10 years? What will be the new Lexan or Sintra?

A. I'm betting the farm that high-performance plastics will continue to lead the way. We have a leadership position in high-performance plastics and medical plastics, the latter of which is a difficult and complex market to be engaged in. We'll also be announcing shortly an exclusive agreement on a specialized "new" material with some very unique capabilities and market applications.

Q. On a personal note - If you could come back as someone else, who would that be?

A. Paul McCartney for sure (and I would have kept the Beatles from breaking up!)

Q. What's your greatest achievement?

A. Two beautiful daughters who still think their father is the most important person in their life. I'm also proud of the fact that we are a strong third generation family business. You know, they say it's the third generation that comes in and messes things up –won't happen on my watch!

Thank you

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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™
is published monthly by Lucitron Corporation,
P.O. Box 250235, Franklin, Michigan 48025,
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

Subscription or Editorial Information: 248/258-5657
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