



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

MAY 2003

Dear Colleague:

In our May 2002 letter we began with the term “Economic Earthquake” as a description of the state of our global plastics economy – now one year later we believe the lava has stopped flowing and the aftershocks have abated ... optimistic signs abound and a recovery has begun, albeit slowly. In a brief phone survey we did in late April, there is more optimism and good news for the middle two weeks in April – business seems to be improving slowly among both distributors and manufacturers now that the uncertainty of the Iraq war has been removed (although the peace that follows will affect our economy in a mixed way). There is some positive movement in the economy... although tempered by the SARS potential pandemic which shows some signs of abating (at the time of this writing).

Overall, the global economic outlook is improving, after languishing, as the focus shifts away from the war and recovery resumes – the importance of saving Iraq’s oil from destruction cannot be overemphasized and its tempering effect on the price of crude oil will exert pressures on plastic resin prices, perhaps even holding them in check. DuPont, on the last day of April announced a sharp rise in its performance materials profitability – this without depending on extreme price increases. Thus we see a beginning of perhaps a rise in business spending, not only in the defense, energy and military sectors but in a broad movement across multi-industry lines. More spending will spark more job creation which should lead to a new economic growth cycle taking root in 2004. Once that picks up momentum, conditions are ripe for speedier gains – coupled with low inflation, oil prices will fall after a June peak, giving way to double digit profits gain. We firmly believe that the oft uttered “wait till next year” proclamation truly means 2004!

Of course, the previously mentioned SARS outbreak will hold Asian economies back, until at least the outlook is clearer. Yet many economies, especially in South America and Europe, are also rebounding. Iraqi reconstruction contracts are opportunities for all size companies (as sub-contractors) and all nations. Small business will get a nice chunk of the \$100 billion the U.S. spends. Companies of all sizes should check out www.usaid.gov/iraq and/or Equity International and SI International, to link your company to partners on contract bids for such items as PE film etc.

TRENDS: If you are a distributor without any internet-based or direct-connect, e-commerce selling system, you are well behind the times – you're also in the majority, according to several studies of industrial distribution. Only 8% of industrial distributors make fully enabled e-procurement available to their best customers, with electrical distribution coming in at 15% - the highest. Without question, a key measure of success will be the distributor's ability to prove overall savings to the customer. In the case of e-procurement, that means being more automated and having the ability to service customer locations with standardized product listings – no small task for cut-to-size plastics. Yet the face of business is moving toward e-commerce and other automated, interactive programs and away from the telephone and fax machine.

Some excellent reading with important ideas on this subject can be had at: www.smarterdistribution.com.

For examples and case histories go to: www.manufacturing.net.

Ametek and MSC Direct have partnered in an effective system and leading industrial distributors such as Kaman Industrial Technologies and Grainger are leading the way in this slow moving but deliberate trend – one that is no longer revolutionizing overnight but innovating for the long term.

For an example of an exemplary site in our industry, look at www.modernplastics.com.

Speaking of Grainger, their Integrated Supply operation is gaining strength with sales of US\$226 million in 2002 – a significant percentage of Grainger's US\$4.6 billion! Of course this initiative targets the very largest MRO users and only a few of our plastic distributors can effectively compete... and this leaves many smaller users to be sold by the many smaller distributors in our industry. We see the beginnings of a selection process – large versus small in plastic shapes distribution, with very little room for the medium size operation. This is a trend we see developing on an accelerated basis for the balance of this decade.

Some important distribution industry indices for March of this year are:

Purchasing Managers Index: March 2003 – 46.2 versus 50.5 in February

Industrial Production – down 0.5 percent versus up 0.1 percent in February

Machine Tool Consumption - \$133.8 million in February versus \$131.8 million in January

New Orders Index (ISMA) – 145.9 in February versus 159.9 in January

Just released - some important studies indicating trends in selective markets, published by Freedonia Group (www.freedoniagroup.com) are:

Specialty Films (including polyolefins, nylon, PC, PVC)

Fluoropolymers (demand to increase 5.3% annually through 2006, with strongest gains in PVDF and FEP)

Plastic Film (all resins included in a 12.8 billion pound U.S. market projected by 2006)

Conductive Polymers (6.5% annual growth through 2006)

Watch for innovative applications based on certain polymers that remember their previous shape and return to it at a certain temperature – introduced by MnemoScience Co., based on a patent awarded to Massachusetts Institute of Technology.

Microbeads of MMA are being used as a wrinkle treatment known as Artefill – a potential multi-billion dollar market, replacing Botox and collagen. Could impact MMA resin markets much as CD's changed the economics of PC. (translation: price increases).

PRICING: Quadrant EPP increases prices on all Engineering Plastic and HPM shapes from 5-8%, effective May 5, 2003. Resin prices for all TP's are generally soaring, led by PP, PE, PBT, PC, acrylic, nylon and acetal.

Historically, producers such as resin makers and processors advance price increases based on current market conditions, like higher feedstock costs. After the price increase letters go out, they wait for the 30-60 day price protection to expire before the increases take effect. Currently we are seeing price protection limited to only 30 days, with some talk of eliminating even this short period of time. Something to watch for as a new pricing trend.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Rowmark, Findlay, Ohio (US) is creating a Premier Material Concepts Division to focus on special orders for sheet and roll stock for RV, housewares and construction markets – this supplements its traditional engraving stock product line. Flourotek (Easton, PA US) to open a flouropolymer tubing extrusion plant in Ireland this month. AIN Plastics, a ThyssenKrupp company expands into Pennsylvania with daily deliveries into the Pittsburgh area market in concert with its sister company, Copper and Brass Sales. Also at AIN Plastics, the company has been named Sign Partner with Sheffield Plastics, a Bayer Company – this limited distribution agreement includes PC and PETG sheet and roll stock. Rhodia SA launches new nylon plant in South Korea, with a new nylon/ABS alloy – aimed at PC/ABS alloy markets. Pipe maker PW Eagle will conduct its PE and PVC pipe businesses as separate operations, known as PW Poly and PW Pipe, respectively. Its PVC operation has eight plants with sales of US \$240 million and one PE pipe plant generating \$11 million in sales in 2002. Imperial PlasTech, a Canadian pipe and conduit producer will exit its pipe plant in the U.S. – formerly an acquisition of Americon. In additional pipe industry news, Griffco Plastics (Mississippi, US) has filed for bankruptcy.

Mitsui and Sumitomo Chemical companies have completed their merger. Deceunick of Belgium buys Thyssen Polymer, to become the worlds largest PVC building profile producer. Canon Communications acquires Modern Plastics and Modern Plastics International publications.

DISTRIBUTOR/MANUFACTURER BRIEFS: Kuraray America introduces a new class of high temperature nylon called PA9T, which is rated at 583 F and exhibits very low moisture absorption properties (less than .5%). GE Plastics (GEP) launches new US\$25 million campaign to promote Lexan® as a brand name in products, both industrial and consumer – “made with Lexan resin” will be advertised and displayed prominently in an effort to have this bellwether product of GE's to be as well known as DuPont's Teflon®. Should help sales and distribution of sheet and film as well. Also at GE Plastics, announcements of a host of new sheet and film products to be made at NPE 2003 in Chicago next month: Self-Cleaning Lexan sheet; Lexan OQ optical quality; AntiFog sheet; Ultem sheet and film; Xylex film; Lexan HPFAF (hard coat, anti fog); Lexan Thermorooft double skin sheet; Lexan Zig-Zag double wall sheet; Thermoclear sheet in self cleaning and hammered glass grades; and Lexan SLX film to replace paint in auto bodies! All in all it appears that GEP is investing heavily in R&D and innovative new new products – a boon for our entire industry. IAPD to sponsor Industrial Thermoplastics Conference June 24-25 at McCormick Place in Chicago, during NPE 2003 – stock shapes educational seminars for all interested parties will cover material selection and fabricating techniques, including HPM's.

PEOPLE: Bryan Brandt is new rep for Quadrant EPP in South East U.S. Shawn Lynam, Bill Shields and Terry Tewell are new additions to AIN Plastics sales organization with Paul Ewing and Richard Nye promoted to management positions.

Breaking News! – GE Plastics names Craig Witsoe, general manager GE Structured Products, replacing Tom Bouchard who is pursuing outside opportunities.

INDUSTRY INTERVIEWS: Tony Martino, founder and principal of Martino Marketing Group, Easton, PA. Tony, who resides in Easton, PA, founded MMG 21 years ago and previously was Sales Manager of Thermoplastic Processes for 10 years following initiation into our business at Cadillac Plastic. He has a business degree from La Salle University in Philadelphia. We interviewed him by phone and e-mail from his office in Pennsylvania.

Q. What is the history of the independent representative in our shapes industry?

A. The Independent Rep has been a factor since the early 1960's – Thermoplastic Processes, Westlake, Petro Plastics all went to market using independent sales agents. Some of the laminate manufacturers used a combination of direct and independent representatives.

Q. How many rep agencies and individual reps are active today? How many certified (CPMR)?

A. There are approximately 40 agencies that belong to the IAPD with a good percentage already CPMR certified. There are another 40 agencies and/or individuals that have some contact within the basic shape marketplace, however this group does not belong to the IAPD.

Q. How will the rep business change in the 21st century?

A. As outsourcing continues to allow companies to better manage their costs and focus on their competencies, Manufacturer Rep (MR) organizations will look at providing added services as we move further into this century. Some of these will include marketing and administrative function. There will be some opportunities to support or assume the customer service functions. There are several areas where the MR could work with suppliers to effectively and economically allow each of them to focus on what they do best.

Q. What do you see as the greatest challenge for manufacturers and distributors in the next 5 years?

A. It's Back to Basics. If you look at any successful athletic endeavor you will inevitably find solid fundamentals. That's basic to an individual and it applies to teams as well. Without the basics, success at the very best will be short lived. In business we need to know and understand our strengths and stay focused on them.

Q. How has the shape of business changed the most in the last decade?

A. First of all there is more product. Next the capacity to produce resin along with extrusion technology has in many cases reduced the selling price. Big changes in markets such as Electronics, Medical and Communication have significantly increased the opportunities to use these products.

Q. How will e-commerce change our industry, if at all?

A. E-commerce will find its place! It will evolve slower than Wall Street would like. The huge factor will be transaction costs. Those ready to participate will enjoy the early advantage. The year 2001 saw US\$80 billion in Internet orders. That deserves some attention.

...continued in June 2003 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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