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

MAY 2005

Dear Colleague:

Stagflation scenario senses softness… the mood in our industry is very much cautious for the balance of 2005 and certainly for 2006. With the re-appearance of oil-caused inflation in raw materials prices, and the slowing of orders, attempts to sustain the last 2 year recovery are tenuous at best. With the advent of new products resulting from resumed manufacturers' profits, they are keeping the growth curve going. New market penetration is made possible by some innovations, especially in MMA and PC sheet. We expect this will help a modest second half revival as energy prices ease and most resin price increases slow as we are now seeing in PE and PP.

In the 1970's soaring prices of oil and other commodities led to a combination of high inflation, high unemployment, and a slowdown in economic growth… sound familiar? Well we're not at that stage yet in the early 21st century but it bears watching, especially if there is any oil supply disruption caused by terrorism or the rumored declining Saudi production.

What is not in doubt, however, is that energy will remain costly at least through the end of this decade – unlike the 1970's, oil price spikes will stick, not abate. However, this is bringing with it investments in conservation and expanding energy sources. Pain now will result in gain later!
Global energy efficiency will rise 10% by 2010. Significantly, efficiency will have increased 50% since the first oil embargo hit in 1973.

One of the significant differences between this oil price rise cycle and the aforementioned 1970's is certainly the existence of the new and booming Chinese economy which is adding increasing demand for energy generally and oil specifically. This is why we remain cautious in predicting a protracted three year recovery and advise short term investments only.
Opportunities abound however in exporting plastics to Mexico whose economy is virile enough to continue its 2004 growth into 2005 and beyond.

TRENDS: There is a new Plastic Shapes Market Analysis out, published by Industrial Market Information, Inc (IMI), which estimates sales in the U.S. by regions and by SIC Code for Plastics sheet and tube, both rigid and flexible. It shows Total Estimated Sales of all these products at US$6.69 billion, with the South Atlantic leading the way in penetration of Construction and Pipe Markets. The total number of companies represented by this study was over 11 million for the U.S., with over 2 million in the top regional market. Gives a concise view of the opportunities for growth in the next several years – should be must reading by both manufacturers and national distributors. (For more details, contact IMI in Minneapolis, Minnesota.)

The World is Flat is both the title of a new book and a theorem presented by its author. It states that Globalization has leveled the playing field since 2000 with the internet being its prime driver. Several technological, economic and political forces have converged, and that has produced a global, web-enabled playing field that allows for multiple forms of collaboration without regard to geography or distance – or soon, even language. The sequence of events that began with Netscape's browser opening up the Internet to all and proceeded thru open sourcing, out sourcing, off shoring, supply chaining and culminating with wireless technology. These have been the great levelers, which have changed the way we all do business now, especially with the advent of the emerging economies of China and India. Twenty years ago you would have preferred being a B student in Anytown, USA than a genius in Shanghai. Today you'd much prefer to be the genius in Shanghai because you can now export your talents anywhere in the world.

Specialty Plastic Film demand in the U.S. is expected to reach US$7.4 billion in 2009, with electronic applications driving this 5% per year growth – this reported in a new study from the Freedonia Group. A new publication, *High Performance Plastics Newsletter*, makes its debut in Europe. NPE 2006 has rented nearly 85% of its total space – sponsored by SPI, opens June 19th in Chicago and has over 1 million square feet available for U.S. and International Exhibitors.
Plastics Hall of Fame opens nominations for new living members to be inducted during NPE 2006… visit: www.plasticshalloffame.com for more details and for nominating forms. It's time for a member of our plastic shapes industry to be represented!

GE Advanced Materials has moved up its estimate when China will surpass the U.S. in consumption of its products – now forecasting 2008 versus the original estimate of 2010.
Now selling about US$ 1 billion into Chinese markets, they are aiming to triple that amount by 2008. A growth market for engineering plastic shapes is said to be bus manufacturing and maintenance – surely a hint to PC glazing opportunities.

Further consolidation in the general industrial distribution segment is gaining momentum – Win Wholesale merges with Noland Company and Ferguson Enterprises is buying Kennametal's Integrated Supply Business. Meanwhile MSC and Kaman report record earnings. Since much plastic shapes business flows through these distribution channels… worth watching closely.

In March of this year, the U.S. Supreme Court agreed to review, in the fall of 2005, a Federal Appeals Court decision on price discrimination in wholesaling. If allowed to stand, it could force manufacturers to end certain discounting policies, especially in competitive bid situations.

PRICING: Prices for PP and PE resins backed off about 2 cents/lb in April, albeit since 2003 their prices have increased 100% and 70% respectively. This respite is probably temporary although allowing some producers to pass along more recent increases. Prices for MMA monomers have climbed again (April 1, 2005) by another 10 cents per pound, perhaps a forerunner of another sheet increase this quarter. ETP increases keep coming especially in PET, PBT and nylon. PVC and PS prices continue a gradual but persistent inflationary spiral, with occasional pauses to tend to balance supply and demand.

DISTRIBUTOR/MANUFACTURER BRIEFS: Bayer AG reports 1Q profits up 56%, led by its Plastics sector which tripled profits from year earlier results. Quadrant's 1Q results were up slightly in sales, led by high performance plastics. This follows its 2004 year end results of record sales and earnings.
Plaskolite introduces Fab-Mask™ paper replacement film masking for acrylic sheet – provides durability of paper masking, adhesive free, with this cling type film capable of being reapplied.
Solvay Advanced Polymers introduces Udel® P 1700 HC – for the first time Polysulfone is available in water clear, PC clarity like, rather than the traditional amber color.
GE reports 1Q earnings jumped 25% led by its plastics business which is operating close enough to capacity to turn down orders for lower margin products – was able to recently raise prices for the fifth time this year to overcome rising costs for benzene. GE Advanced Materials reported quarterly sales at US$2.23 billion and profit of US$275 million, up 18% and 61% respectively.
Arkema launches acrylic block copolymer in a nanostrength range, thought useful for composites.
Brett Martin of Ireland opens its first US Distribution Center in Appleton, Wisconsin – to stock foam PVC sheet as well as structural PC sheet.
Spartech obtains long term contract to produce coextruded, multi-layer sheet for use in thermoformed fuel tanks for the automotive industry in both Europe as well as North America.
Speaking of thermoforming, Sustaplast KG of Germany is producing thermoformable glass fiber reinforced nylon 6 sheet from Lanxess resin – finds initial application as protective covers for boat engines. Continues market development pioneered by DuPont and Ensinger Penn Fiber.
Simona reports rise in 2004 sales by over 20% to €212 million, but earnings gained by just 1%.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES, AND EXPANSIONS:
Degussa AG has acquired Cytec's 50% jv partnership in CYRO Industries, which was a jv formed in 1976, between American Cyanamid (predecessor of Cytec) and Rohm GmbH. Degussa, which last year opened a PMMA sheet plant in Russia, will incorporate CYRO and its PMMA sheet and resin business into its Plexiglas BusinessUnit, now part of Rohm in Germany.
Transaction price for this 50% interest is US$95 million – CYRO's sales in 2004 were US$317 million, while Degussa reported sales of €11.2 billion.
Boltaron Performance Products adds an extrusion line in Ohio to produce 2 million pounds of sheet in addition to its current 18 million pound capacity producing annual sales US$25million.
Boltaron was originally founded in 1954 as Seiberling Rubber's Plastics Division, then sold to General Tire, then to Empire Plastics, from whom Boltaron purchased it in 2004.
The plastic pipe industry has been rife with consolidations – Thompson Plastics acquires Charlotte Pipe and Advanced Drainage Systems buys Hancor Inc, creating North America's largest pipe company with estimated sales of US$700 million.
AEA Investors have acquired, in partnership with existing management, Vycom Corp. and Compression Polymers Corp.
Some other manufacturers said to be in play for a possible acquisition are Poly Hi Solidur, with its parent Menasha announcing its interest in selling – Quadrant and Simona are being speculated as being possible suitors, with no confirmation from either company.
Westlake Plastics, an oft mentioned candidate for a merger, is said to be talking to Roechling – once again could not be confirmed be either company.
ZL Engineering Plastics Inc had doubled the size of its California warehouse stocking its shapes.

PEOPLE: Laurie Andriate named Director, Global Marketing, Plastics, Eastman Chemical.
Brian Malik joins Cope Plastics to open Chicago branch. Plastics Plus, UK, appoints Richard White Deputy Managing Director. Jim Cara appointed Sales and Marketing Manager, polyolefins business, Omya Inc.
Correction: In a previous issue, we noted that Peter Arvan, G.M. GE Polymershapes had previously been with GE Silicones – his most recent assignment was actually GE Supply.

INDUSTRY INTERVIEWS: Bing Carbone, President, Modern Plastics, Bridgeport, CT. Bing is a third generation owner-manager of this regional distributor with branches throughout New England and a very active website at www.modernplastics.com. He resides in Fairfield, CT with his wife and children and garden which is world class.We interviewed him by email from his office in Bridgeport, CT.

Q. How was business in the year 2004 for you?
A. It was a record year in every meaningful aspect, but I can honestly say we are better company at the end of the year 2004 then we were at the beginning. That kind of "business development" progress is really what makes a company thrive and makes the financial end of things fall into place.

Q. What do you attribute these results to?
A. Talented, gifted, well-educated employees, solid management, and going in with the right game plan – a few home runs, plenty of runs batted in and keeping the strike outs to the bare minimum.

Q. What did you do differently last year?
A. I think every year you can look back at what was done differently or what should have been done differently. It's constant work to get better at the fundamentals like delivering a quotation to a customer immediately, shipping product on time all year long, reducing quality related issues to near-non existent levels. I think the other side of that is how did we make Modern Plastics a better place for our employees?

So the real answer is that we've been doing a lot of the same, focusing on improvement, making things better, but also venturing into new areas and taking a few thought-out risks here and there.

Q. Your website: www.modernplastics.com is very impressive – how did that contribute to last year's performance?
A. Thank you, however whether it's our website or the rest of our business I always tend to think there are ways we could do a lot of things better –internet work included. That's why we've got some pretty innovative stuff coming through in this regard for 2005. Our motto is "Setting the Standards in Plastics Distribution" and we try like heck to back that up with our actions in a multitude of ways.

Q. What do you see as the future for internet commerce in our industry?
A. It will continue to be a part of everyone's business. The trick is who's going to do it better than anyone? It's a big, big world –there are plenty of opportunities for everyone if you understand precisely what is involved in this particular area.

Q. What other changes do you see for the rest of this decade? The next decade?
A. I'm sure there will be additional pockets of consolidation – we're not done yet in this regard. I think distributors will be selling other products to their existing customers besides plastics. I'd like to think that a decade from now, we're all going to be that much better at what we do, but in vastly different and improved ways.

Q. How have manufacturer-distributor relations changed during the last 3 recessionary years? If at all?
A. I definitely think that the "sides" have been taken. Manufacturers know who they want to work with and vice versa. Positive relationships between these two sectors are more important than ever. I also sense that manufacturers are back to concentrating on what they do best and getting out of their distributors hair - allowing them to do what they do best. I think this is a result of better communications and perhaps more trust between each other.

...to be continued in the June 2005 issue

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