



GLOBAL PLASTICS LETTER

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“Forecasts for Plastics Management Decisionmaking”

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K 2001 Issue

Dear Colleague:

Oil and Recession are the two words we are hearing most about the state of our industry. The recessionary forces, certainly exacerbated by Terrorist attacks on the U.S., are upon us, and the much anticipated economic recovery (pre Sept. 11 expectations) hoped for early 2002 seems distant. However we must factor in the possibility of a terrorist attack on Middle East oil supplies causing further reverberations on world markets. We only have to look at the scenario which unfolded in October 1974 (yes 26 years ago!) following the OPEC moves to cut back production drastically in 1973 which raised prices on crude oil dramatically, which caused forward buying, shortages and inflation in the plastics industry, capped by the recession of 10/74.

Now in October 2001, fears of oil supplies being at risk due to terrorist attacks, could put further pressure on global economies with crude increasing 600% (a stated terrorist goal). Scarce, highly priced oil would have products competing, notably polymers – thus inflationary spirals and spot shortages. A prudent plan should include these possibilities. However natural gas should remain stable or lower thus freeing up some of the natural gas derivative plastics from pricing pressures.

Just having returned from K2001, in Dusseldorf, Germany, we can report the mood and outlook of the global plastics industry which is one of “irrational pessimism” – the events of Sept 11 seem to have pervaded the psyche of businesses in all nations (over 100 countries were represented). Despite the stoppage of most business during Sept. 2001, blamed on the tragic events that seem to have affected every country on the globe, by the end of October optimism seems to have returned with the proliferation of new products exhibited in Dusseldorf. The statistics on this triennial event are also impressive ... 2885 exhibitors from 53 nations and over 230,000 trade visitors from over 100 countries (down 12% from the 1998 exhibit – with visitors from the US off the most – although they numbered 6000). The number of exhibitors increased by 232 companies, with Germany, Italy, U.S., U.K. and France representing the countries with the most exhibitors in that order. More than 1.6 million square feet in 17 halls were occupied by K 2001 exhibitors. Shapes manufacturers filled four of these halls with sheet, rod, tube, film and pipe suppliers from over 50 countries. The global shapes business is alive and well!

Excerpts from an e-mail from one of our readers perhaps expresses the consensus: “mere words would be woefully inadequate in expressing our feelings in India ... it would take some time for the lives of the people in America to come back to its normal routine, but knowing the tenacity and determination of the Americans, I am sure that this would be quite soon!”

TRENDS: Pipe demand in the US is expected to increase 2.4 % per year through 2005 to over 16 billion feet, with PVC the leading pipe resin and HDPE growing rapidly and construction markets leading the way with 7.8 billion feet by 2005. (Source: Freedonia study).

After Sept. 11, manufacturers of MRO products reported drastic lowering of orders – with the channel’s current low inventories, the expected upturn in 2002 will trigger strong order rates. However, “dead stock” (defined as any item that sits on a warehouse shelf for more than one year) is still a concern and a report from the Oct. 25, 2001 issue of *Modern Distribution Management* (www.mdm.com) lays out some of the reasons and solutions – an innovative solution could be to use the Internet connected to trade association bulletin boards or via Internet trading networks. Remember that everyone wants to sell dead stock but no one wants to buy it – unless approached scientifically. Otherwise everyone wants to *buy* dead stock but no one wants to *sell* it. We strongly urge all distributors to read this thoughtful treatise on an all too timely subject.

On another important trend – Deflation. To a generation raised to fear inflation, the opposite – prices falling across the economy- has a certain attraction. Paying less must be good. There is a catch, of course – your costs are someone else’s income; and when someone’s income is falling it creates problems for the economy. We are seeing this in Japan as we saw during the Depression of the 20’s – 30’s and we are seeing in the US with reports of the decline in the economy in 3Q 2001 and prices for personal consumption expenditures – the first since 1954. Enduring deflation leads to a big drop in consumption as buyers believe prices will only get cheaper and since cutting wages is very hard to do, corporate profits get squeezed leading to more layoffs and so on in the cycle. The only known cure is lowering interest rates below the inflation rate – so look for that to happen. This will keep auto and housing healthy and help our industry out of its slump, although it will continue to be a struggle to raise sales significantly in 2002. Housing will still generate growth and provide much needed support for the economy and for our plastic pipe industry.

Energy prices will continue to drift lower with gasoline and oil down 3% - but natural gas down 20% in the next year. All of this predicated on no interruption in crude oil supplies by any further terrorist interruption in the Middle East. Further, business travel costs will lower by double digits, while shipping and insurance costs will rise – with workers compensation and health insurance leading the way with double digit spikes. Continuing lower interest rates as we have said will lower costs of borrowing for expansion. 2002 promises to be an unsettling and challenging year for plastics management – be prepared to reverse some courses suddenly. Contingency plans are more important than ever – we see at least 6 different scenarios possibly playing out next year with uncertainty the only constant!

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: BASF and DSM are engaged in a bidding war for control of Rhodia of France, one of the world’s largest producers of nylon 6/6. BP and Solvay complete their multi-faceted deal with BP transferring its Engineering Polymer business (including Torlon and Udel, Radel etc sulfones) to Solvay. Solvay, in turn transfers its PP and HDPE business to BP making it the world’s second largest PP producer. In addition a jv is created for the HDPE business. The new companies will be called Solvay Advanced Polymers and BP Solvay Polyethylene. In a separate announcement, PES and PPS capacity will be increased by 40% by year end.

Atofina – world’s largest producer, increases PVDF capacity by 10% at its US Kynar plant.

PEOPLE: Mort French, co-founder of Commercial Plastics (now GE Polymershapes) passed away Oct. 14, 2001 at the age of 90. Mort was the recipient of the IAPD Award of Merit in 1999.

A pioneer of our industry, he started Commercial Plastics in 1945 with one location in NYC.

GE Polymershapes has not replaced Greg Adams in his position as President, since that position was eliminated with the integration of Cadillac and Commercial complete. A regional leadership approach with the USA, Europe, Pacific and Latin America Directors (John Kramer, Edwin deWolf, Mal Binnie, Pablo Acedo are currently running things.)

Peter Hill, Laird Group UK, is Managing Director with responsibility for Laird Plastics, NA.

Vitrex plc (leading producer of PEEK) announces that Paul Syms resigned as Commercial Director – no replacement named yet. John Getz named US Marketing Manager. Gerry Burnett joins Business Answers Int'l. as V.P., M & A.

PRICING: In a word – down. Reflects the deflationary spiral we have previously discussed. Notable exception is polyolefins and its derivatives, which are going up, reflecting huge surge in demand without any new capacity coming on stream.

DISTRIBUTOR/MANUFACTURER BRIEFS: Reynolds Polymer Technology provides 4” thick clear acrylic sheet to produce a 70 ft long tunnel and a window 152” long by 104” high for a new polar bear viewing exhibit at the Detroit Zoo. Bayer starts US Bayfol film production at it's CT (US) plant. It is a blend of PC and PBT, designed for products that require three dimensional forming with resistance to chemicals and with high heat stability, especially in the telecom industry. Klockner Pentaplast, (Germany and US) leading PVC, PET and PP sheet and film producer to be sold to UK group, Cinven, in a consortium with Baine Capital (US). Price tag is estimated at \$900 million US. Sumitomo and Mitsui to expand MMA jv plant in Singapore by 80,000 metric tons. Mitsui enlarging phenol resin plant there as well. BASF launches new HIPS resin for extrusion, thermoforming and packaging.

Plaskolite updates website www.plaskolite.com and was one of the exhibitors at K2001. Plastic pipe maker Vicplas International, Singapore, reports fiscal year loss vs profit in 2000. Correction: In our Oct 2001 issue we mentioned Modern Plastics (US) with first ISO9001:2001 – Warehoused Plastic Sales (Canada) received its certification in July 2001 making it the first in North America.

Compudyne Corp. as well as GE and Sheffield/Bayer experiencing surge in demand for its glass/PC bullet resistant product due to heightened security awareness on the part of government and commercial buildings owners and operators. Sales of these products are showing double digit growth.

K2001, of which we have reported on above, featured many suppliers of “semi-finished” (read as shapes or sheet, rod, tube, and film) products – we list some of these below: (for a complete list send us an email request to: products@globalplasticsletter.com)

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|----------------|---------|------------|
| • Roechling | Quero | Ensinger |
| • Brett Martin | Gehr | Kommerling |
| • Licharz | Simona | Westlake |
| • Plaskolite | Pleiger | Hippe |
| • Polygal | Plazit | Cattaneo |

INDUSTRY INTERVIEWS: Mitch Grindley, V.P. Marketing and Sales, Plaskolite Corp. He joined Plaskolite in 1981 and has held his current position for 17 years. Mitch, 41, a graduate of Ohio State lives in Westerville, Ohio with his wife and three children. We interviewed him via fax from his office in Columbus, Ohio.

Q. With the changes in the acrylic sheet industry, i.e. Spartech, Plaskolite, Barlo, etc., will Plaskolite be expanding or consolidating its acrylic sheet business?

A. During the past few years we have seen many changes...DuPont, Continental, KSH, ICI, Manchester, Sheffield – and even Rohm and Haas have exited the acrylic sheet market. Some of these have been replaced by other manufacturers such as Spartech and Ineos. During the same period, Plaskolite commitment to the industry has never been stronger – expanding faster than anytime in our history. Opening a new plant in Zanesville, OH and acquisitions of Continental, MirAcryl, ICI's styrene business, American Mirror, Replex Mirror and Nevamar's coating facility. We are always looking for ways to expand our product offering to our customers. Whereas acrylic sheet is an add-on to our competitors chemical business – at Plaskolite it **IS** our business and therefore our **passion** and need to grow is crucial ...it is safe to say we will be expanding!

Q. With GE's acquisition of Cadillac and Commercial, now called GE Polymershapes, will there be any change in your acrylic sheet strategy?

A. While clearly the GE acquisition has been a major event in our industry, it really hasn't affected our strategy. We continue to invest in the technology and equipment to create a value for our customers who have many choices for acrylic sheet. We believe you have to create value for acrylic sheet. Selling - no, make that giving away truckloads of 4 x 8 sheet with no understanding or care of the end user's need for the product is a dead end.

Q. What is the percent of cell cast vs continuously manufactured acrylic sheet? Is cell cast growing?

A. Roughly 70% continuously manufactured acrylic sheet – 30% cell cast. I personally believe that the advances in continuous manufacturing has and will continue to cut into cell cast markets. Ten years ago, above .250 inch was a cast market, because continuous equipment and technology was not capable of a quality product. Today Plaskolite makes from .030 to 1.00 inch, opening up traditional cast markets that we couldn't serve before.

Q. What do you think Spartech will do with the Polycast product line?

A. Good question. Plaskolite has always been impressed with the Polycast organization. Hopefully Spartech will invest in finding new applications for acrylic sheet – an important responsibility for all manufacturers of the product.

Q. What is your outlook for the state of the acrylic sheet industry in 2002?

A. Quite honestly we believe 2002 will be difficult. Because of the slowing global economy, over capacity, and the changing distribution base, you will need to be on top of your business. Also there are many new business leaders in our industry – both manufacturing and distribution. How they view our industry and the direction they will take their companies will affect us all.

... to be continued in December 2001 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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