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

OCTOBER 2003

Dear Colleague:

One down, and one to go – the bellwether months of September and October that is … and the September results are decidedly mixed as to sales and profit numbers. If October's results do not exceed those of October 2000, then the year 2003 will be disappointing as will the long awaited bounce-back year 2004!
Since oil and gasoline prices have historically correlated (higher prices retard plastics growth) with the economic health of our plastic shapes industry, it would be well to look at future movements in world wide oil pricing… we believe that despite OPEC's decision to cut the cartel's crude production, oil prices won't head through the roof! By Spring 2004, a big rise in oil output by non-OPEC nations will reduce the price to $22 a barrel from the current $28 price.
Some other positive precursors for a healthy 2004 in the U.S., Europe and Asia are:

- Corporate investment spending is rising
- Government spending, especially on defense, is on an upward track
- Interest rates are low, so credit is cheap
- Inventories are unusually low, so factories need to increase production to meet demand
- Global trading is at all-time high levels … markets are now truly world-wide
- Productivity, especially with computer usage prevalent, is constantly improving
- Stock markets are rebounding restoring wealth and confidence

How did our corner of the plastics industry get into this three year recession?… and more importantly, what can we learn from it so as to minimize the effects of any repetition?
First of all, it appears that the business cycle, that so many in the 90's were elated to claim was obsolete in the *new* economy, was just in hibernation. Indications are now just appearing to show that the effects of Y2K expenditures, for a computer-related widespread disaster that didn't happen, planted the seeds for the recession that started early in 2001 and spread globally.
Coupled with the overreaction to the internet "revolution," which also failed to occur, closely followed by terrorism, accounting scandals, the SARS outbreak and the war in Iraq, and you have unprecedented events in tandem which slowed every economy. Even the very positive effects of the technology sea change that greatly increased productivity in every sector of the business world added to the pressures of retaining full employment and utilizing manufacturing capacities efficiently… and you have the recipe for disaster that has plagued our businesses for an unprecedented three years. What learned? … how to prevent? Well, we have 999 years to wait for Y3K but more importantly, productivity will continue to improve and planning will account for it without sudden adjustments. In addition, survival of the fittest will eliminate some competition in both manufacturing and distribution sectors, allowing more growth for the survivors. Make sure it's your company!

TRENDS: Manufacturing activity (new orders and production) grew in September for the third straight month, according to the Institute of Supply Management, auguring well for the 2004 recovery. On another optimistic note, construction spending rose in August to the highest level since January 2003 and this traditionally fuels the plastics industry in several segments. Defense spending and reconstruction spending in Iraq will further stimulate many industries.

A noted economist who follows the plastics industry, Bill Wood of Mountaintop Economics, who we have quoted in the past, is forecasting a 4-5% growth in plastic markets in 2004. "We'll see a cyclical rebound next year … but plastics will finish 2003 down from its 2000 peak … a lot of increased demand for plastics products is being filled by products not made in the U.S.," he said at TPE Topcon 2003, held Sept 23-24 in Akron, Ohio.

Another burgeoning trend that is troubling many producers and affecting distributors is the loss of PE business to China, with their plastic converters and fabricators undercutting similar US entities. Since they can buy PE inexpensively from Iran, which sits on one of the largest natural gas deposits in the world, and can easily convert to ethane and thence to ethylene, there is a very real imbalance which is showing up in many global markets. More alliances will surely follow that will tie North America, Europe and others closer to these Asian and Middle East influences. Meanwhile, PVC capacity in China is also growing rapidly with current annual capacity at about 4 million metric tons, and proposed new capacity at about 6 million metric tons.
IRANPLAST 2003, scheduled for 10-14 December 2003 has 79 Iranian Semi-Finished Products companies signed up for 2102 square meters of exhibit space in Teheran.

PC markets, meanwhile are recovering slowly in Europe, growing 3.2% in 2002 and showing single digit growth in 2003 to date, yet still below 2000 levels. In contrast, Asia, led by China is growing 60% this year, albeit from a much smaller base. In Spain, all plastics consumption was up to 3.67 million tonnes in 2002, a single digit increase in a difficult year.

Speaking of international business, a boost is in the works with new translation software for cell phones, coming from a company called Transclick. It can translate messages from and to French, German, Italian, Spanish, Portuguese and English – other languages to follow, including Chinese and Japanese.
US Plastic Pipe demand is expected to grow 2.5% annually to 15.5 billion feet in 2007, with PVC the mainstay and HDPE growing fastest and PEX growing rapidly for radiant heating applications, all driven by construction which utilizes 48% of the market for pipe.
An Industry initiative is growing, hoping to create a Plastic Shapes Hall of Fame to honor the leaders of our multi-billion dollar global industry… hope to hear from our readers about this.

PRICING: Producers of PVC and PS resins have reversed the summer pricing slides with successful price increases in September, creating a double digit rise in prices for calendar 2003.
PE and PP prices that remained soft all year have just spiked upward due to strong 3Q demand as well as the prospects of higher natural gas prices in 4Q 2003. Several mergers creating three major suppliers from the previous six also contributed to the supply-demand ratio favoring upward pricing. For a powerful view of global pricing forecasts, we highly recommend the *Global Plastics & Polymers Market Report* from CMAI at www.cmaiglobal.com

DISTRIBUTOR/MANUFACTURER BRIEFS: Quadrant EPP adds Professional Plastics as distributor for its branch locations, primarily on US west coast.
Caplugs LLC owner Protective Industries led a major consolidation in molded caps and plugs market by buying Niagara Plastics … now closes Niagara plant in Pennsylvania.
Parker Hannifin opens 400th (worldwide) ParkerStore location – since 1993 Parker has expanded the concept featuring the most complete hose and fitting inventory in the industry with 3000 parts in stock at these independently owned stores, a part of its network of 8500 distributors.
On the list of the top 50 Metal Service Center companies, those actively marketing plastics are: Ryerson Tull (#1); ThyssenKrupp Materials (#3) and A.M. Castle (#18).
Quickseal Inc, a new name in our industry, is a stocking distributor of industrial adhesives from IPS Weld-On and others … Max Plumhoff, an industry veteran is behind this innovative venture.
GE Polymershapes (GEPS) closes its Middletown, PA branch. GE Plastics reports a 5% drop in sales in August, continuing a trend exacerbated by higher raw material costs, and year end (sales and profit) results are expected to also be lower. (see following story on GEPS Australia).

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS: GE Polymershapes closes its operations in Australia and New Zealand, (formerly Cadillac Plastics), and sells its inventory to Dotmar EPP Pty Ltd of Australia. With 5 current branches, Dotmar, privately owned, has provided engineering plastic stock shapes to the Australian market since 1967, adds a network of Australian and New Zealand locations, more than doubling their size. Other strategic moves by GEPS in the works?
Degussa, EMS-Grivory, and UBE link up in Japan to market nylon to replace steel in large diameter thick-walled gas pipes.
Lucite International is to build a major MMA plant near Shanghai, China – the investment will make the UK based manufacturer China's largest supplier of feedstock acrylic products including resin and sheet. Also in China, DuPont is exploring joint products to manufacture flouropolymers.
Mergers and acquisitions of film and sheet producers more than doubled in the first half of 2003, with 23 deals announced versus 11 last year, defying the global economy. Most of these were large firms selling off non-core assets, but the Spartech move to acquire Polymer Extruded Products and Klockner's buyout of VPI are notable exceptions.
Dow Chemical will purchase Celanese's acrylics product line, including acrylic acid.
Alcan Inc. acquires the Uniwood/Fome-Cor Division of Nevamar for US$95 million, adding significantly to its high performance foamboard line. (Editors note: look for an interview with Alcan management in a future issue on the significance of this move.)
Rochling Haren KG and their subsidiary Rochling Trovidur KG will merge in 1 Jan. 2004 – the new company will be known as Rochling Engineering Plastics KG and will continue to produce PP, PE, PVDF and PVC sheet products from 22 plants world-wide. Group sales in 2002 were 225 million Euros, with 80% from outside its German base.
Senoplast Klepsch KG is adding its second sheet extrusion line at its plant in Mexico, producing ABS, PE, MMA and ASA sheet for the North American thermoforming market.
PaperLinx of Australia acquires UK distributor William Cox from its prior owner, Robert Horne.

PEOPLE: Dick Garthwaite named President and COO of Westlake Plastics – had headed AL Hyde. Gerry Podesta, formerly GE Plastics America VP, responsible for GEPS, becomes Group VP of BASF Performance Chemicals, North America. Andy Werner joins Business Answers International as VP, involved in M&A, market research and recruitment.
AIN Plastics adds Lisa Illman, formerly GEPS as product manager for sheet products.
Mike Moss joins Laird Plastics from GEPS, as General Manager for the Southeast and Texas.

INDUSTRY INTERVIEWS: … continuing our interview with Scott Telesz, President and General Manager of GE Polymershapes.

*Q. Will you continue to consolidate branches?*
A. We are always upgrading our facilities to meet GE standards, especially for EHS reasons and as leases expire. Generally speaking, we are now in growth mode, and will open new branches at a faster pace than any consolidations. In fact, during 2003 we'll invest in at least 10 new facilities and none of those represent a consolidating or downsizing of locations. The opposite is true.

*Q. How will Structured Products' appointment of Piedmont Plastics as a Lexan sheet and film distributor impact your penetration of key markets? Does more competition slow you down?*
A. The plastics shapes industry has had multiple Lexan distributors for many years if you think about Cadillac, Commercial, Regal, etc. competing with each other in various markets. So this is not a new industry dynamic.

GE Polymershapes is not slowed down at all by competition. In fact, our Southeast region had a terrific 2nd quarter, growing strongly in spite of having a new competitor offering Lexan in many similar areas.

*Q. Will you emphasize non-GE resin engineering plastics shapes or are they no longer strategic?*
A. Non-GE resin plastics are very strategic and continue to make up the majority of our business. They are heavily emphasized by our sales, marketing, and sourcing teams, on a national, regional, and local level. I personally spend lots of time cultivating those professional relationships.

There's a very simple but powerful reason for this. A critical reason for distributors to exist is to offer a local customer a one-stop shop for all their plastics needs. That means variety of products and brands, depending on what they want. If we emphasized GE resin-based plastics too much and non-GE too little, customers and suppliers would find us less critical to adding value to their business.

*Q. Why has it appeared to take so long to integrate the two parts of GEPS that were acquired to form today's structure?*
A. Acquisition and integration of any company is not easy work. In this instance, it was really a marriage of three very different companies and cultures: GE Plastics, Commercial Plastics & Supply, and Cadillac Plastics. The most sensitive issues in any integration are typically people issues, and since distribution is a people-intensive business, rather than asset-intensive, those issues take extra time to work out.

In retrospect, the integration went relatively quickly. When I took the helm in December, of 2002 (only 2 years after the second acquisition), the clear feeling I got from employees was that they were part of a GE team now and on one operating system. While everyone appreciated their Commercial or Cadillac backgrounds, I haven't felt like people held onto the past too much. In contrast, I appreciate when someone highlights when a particular practice was successful at Caddy or Comco and that GE should adopt it. Caddy and Commercial were successful distributors that grew profitably for many years. We are adopting more and more practices from their playbooks, rather than rejecting them.

*Q. What NPI's will you emphasize this year and what are the target markets?*
A. We work closely with all of our suppliers to provide a healthy channel for new products and services to our customers. We have already introduced several new products to the marketplace and many more are slated for the remainder of 2003. The NPIs fall into several key markets including building & construction, film, security, transportation and sign & display.

*Q. Which Distributors do you consider the key competitors and how are you different? Alike?*
A. Our key competitors differ widely by geography and customer segment, so it's difficult to name just a few. As I outlined earlier, we intend to be the preferred full service distributor in the eyes of the customer, preferred channel in the eyes of the supplier, and preferred employers in the eyes of our people. Our energy is really around that, not so much the nuances of what a specific competitor is or isn't doing.

*Q. On a personal note, what would you be doing if you were not doing this?*
A. Running some type of business, either stand-alone or a unit of a larger company. I like leading and I like the world of business.



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