



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

OCTOBER 2005

Dear Colleague:

Historic Hurricane Hyperbole ...force majeure, record natural gas prices, petrochemical plants processing resin taken off line. These were some of the news reports promulgated in the last 30 plus days that are having an historic impact on our industry. Not just prices rising at record double-digit levels on a daily basis... but severe disruption of the economic expansion cycle that has pervaded for most of this year. Just as we were going to press last month, Hurricane Katrina had hit and was then followed by Hurricane Rita. The natural disasters of historic dimension, when coupled with geopolitical events within the backdrop of a war in the middle east, are injecting uncertainty into global markets.

We have just returned from IAPD's annual convention in Chicago and have observed a very nervous, cautious mood that was omnipresent in discussions with the delegates. Considering the scenario of rising revenues, near-record earnings and cautious optimism pervading, some reality has set in to prepare for a dip in the business cycle starting this quarter. A noted economist, speaking before the IAPD, forecast a significant recession world wide in 2009 – based on a turn in the business cycle correlated with Industrial Production. Of course, forecasters rarely have a chance to have their predictions examined in such a long term scenario, but some of his assumptions seem sound.(go to: www.econtrends.org).

We believe that the rise in revenues now being experienced are in large part due to inflation in prices that are being measured and that the output in units is not as strong. This will contribute to the slowing down we are expecting – planning should go forth with this possibility in mind, affecting capital commitments in 2006. Inflation in 2005 will be the highest in 15 years, rising to 3.5% measuring December over December, as higher energy costs are passed along by shippers, manufacturers and others.

Price hikes for plastic resins and shapes as a result of record high natural gas prices, - expect to pay about 50% more for natural gas, which is both the main fuel and main raw material for much of our industry's products. Coupled with spot shortages of ethylene due to two hurricanes (24 production units temporarily taken off line), these extraordinary factors will drive prices up further in plastics. However, with commensurate increases in copper (up 100% since 2004), steel and aluminum (also energy-cost driven), opportunities will abound for further inroads in plastic application substitution, for traditional metals.

Many companies are reining in spending plans as escalating energy costs are draining precious capital. To save money, many are consolidating freight to get bulk rates, as well as using third-party logistic providers such as ProLogis and Schneider Logistics to get volume discounts.

TRENDS: Plastics are in demand for the rebuilding process in the Gulf Coast region which contains 90,000 square miles of devastated buildings and infrastructure. Reconstruction will create huge demands for many film and pipe products in our industry and those geographically close by will benefit, especially in 2006. (See our report on the status of several companies in our industry in that region – under DISTRIBUTOR/MANUFACTURER BRIEFS, below).

Other hurricane disaster lessons: consider storing computer data online for easy restoration of lost or damaged files as well as allowing continuous backup of data; Co-polyester sheet used to produce flood walls – in place of sandbags as manufactured by Geocell Systems of San Francisco.

China has become the world's largest importer of engineering plastics with 3.31 million tons this year and projections of up to 4.66 million tons by 2010. The major resins are nylon, PC, acetal, PET, ABS and PPS and at an annual growth rate of approximately 9%. Coupled with the domestic output of 1.26 million tons, this is a formidable market with its exports sure to follow.

Global demand for fluorochemicals and fluoropolymers is forecast to increase 3% per year to 2.5 million metric tons by 2009. Meanwhile DuPont has announced that it is experimenting with a polymerization process which would reduce the use of perfluorooctanoic acid (PFOA), the controversial ingredient that has been reported to pose health risks to fluoropolymer plant workers. The newer process, which uses high pressure carbon dioxide, is being tried in the manufacture of FEP resin.

Innovation always has the power to disrupt and/or change business – here's what to watch for in the years ahead:

- Software tools that make browser-based applications behave more like software on a PC
- Technology that boldly goes where no search engine has gone before
- Wi-Fi-enabled cell phones that bring together cellular and landline phone systems
- Batteries for portable electronic devices that use a refillable external fuel supply
- Wi-Max – like Wi-Fi on steroids, with a theoretical range of 30 miles

PRICING: As previously noted, prices for all raw materials, especially those that are energy-driven, are up this month at unprecedented, precipitous rates – not only plastic resins, but all industrial raw materials. Unlike 1973, when the oil embargo put upward pressure on all material prices, and when true shortages developed, the 2005 scenario is at once similar and different in other ways. With demand exceeding supply in the short term, the occurrence of Gulf Coast U.S. hurricanes disrupted production of natural gas, oil, propylene and ethylene as well as other building block feed stocks.

Not even the evocation of Force Majeure is enough to bring supply and demand into balance. Unlike 1973 when stability quickly returned to raw materials markets, this time it appears that long range price inflation is set to take root, largely in part to demand from China, which didn't exist in 1973. The year 2005 will go down in the history books as the year our industry's pricing matrix changed forever – current inflated pricing levels will not fall as in the past... two dollar per pound acrylic sheet is here to stay!

It is simpler to follow the current pricing trends by noting those products that have NOT gone up in price these last 30 days... epoxy only. Increases were announced in all sheet, rod and tube shapes of MMA, UHMW, PP, PE, PVC, nylon, acetal, PET, PBT and many, many others.

Perhaps the new Pricing Circles service announced by our colleagues at www.propurchaser.com may be timely to follow for certain groups of materials many in our industry are buying.

DISTRIBUTOR/MANUFACTURER BRIEFS: Several new products were introduced at the IAPD convention in Chicago... among them: CYRO Industries announced Acrylite® *Endlighten* acrylic sheet, designed for light box applications and *Trend Textured* acrylic sheet for unusual visual effects. In addition, with the introduction of its *Satin Ice* acrylic sheet ... and for the first time, *Satin Ice* extruded acrylic TUBE, augured in a new approach to the product mix for sheet manufacturers. Gevacril Germany was presenting both cast and extruded acrylic tubes.

Big sheet and rod is big... both Rochling with its *Polystone MegaSheet* (8 ft x 20 ft) and Gehr with its 200mm dia acrylic rod and 500mm dia acetal rod are breaking the barrier to mass rod.

GE Plastics shows its Lexan SLX sheet co-extruded sheet with improved performance for transportation markets – better weatherability and mar resistance claimed for the new product.

LG Chemical of Korea stops acetal resin production there but adds PC line to its LG Dow jv to give it a 320 million pound capacity annually.

HPG International expands its workforce at its Pennsylvania facility, indicating strength in PVC.

Piedmont Plastics survived Hurricane Katrina's wrath at its New Orleans branch. In a phone interview last month, Chip Whitfield reported that the Hanrahan, Louisiana branch (west of New Orleans in Jefferson Parish) sustained water damage; no phones or power or trucking, and was down two weeks. Its 6 employees fortunately survived with one having to relocate, but operations were returning to normal in late September. All employees were maintained on the payroll during this period and business has now resumed servicing the business community with lots of tarps, etc.

No reports from GE Polymershapes who also have branch in Metairie, Louisiana.

Tufnol UK is back producing thermoset sheet, rod and tube, as it was purchased from the receiver after a bankruptcy. Roy Thomason is new CEO, concentrating on aerospace electronics and bearing markets, but they no longer own Tufnol, South Africa.

Perspex Distribution, a Lucite International company, and the experimental vertically integrated venture, launches its new website: www.perspexdistribution.com.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

GE Plastics may be put up for sale in the foreseeable future by its parent General Electric. In a report from the Financial Times of London, John Rice GE vice chairman stated that all GE operations are being examined in the pursuit of more “shareholder value” and if GE Plastics is deemed non-core, there are “no sacred cows”. What will the future bring for GE Polymershapes?

World Plastics, part of the A.L. Hyde acquisition by Ensinger, is closing and the Plastifab unit in Canada is moving to a larger facility and will be extruding some of the World product line.

Spartech has sold its US\$9 million sales corrugated sheet business to Coroplast Inc for about US\$6million.

Norplex-Micarta opens office in Shenzhen, China, sharing space with sister company IDI Thermoset Molding – both owned by Industrial Dielectrics Inc.

Quinn Plastics will produce Barlo-brand PC sheet near Lyon, France to serve southern Europe.

A.Schulman, a major compounder, is entering the polyolefin sheet extrusion business in Ohio.

Crawford Industries has acquired VTS Plastic Imperial Sheet Corp – had been owned by British Vita, and produces PP and PE sheet in thinner gauges. Victrex USA is constructing a second plant at its UK site, to produce PEEK™ polymer – will increase capacity by 50%.

Degussa's plans to expand its MMA plant in the Gulf Coast have been delayed by recent hurricanes.

Correction: In our September 2005 issue we reported that Chi Mei had started a MMA plant in China – in fact, it is a PMMA plant. We regret the error.

PEOPLE: In memoriam – Jim Doherty former Sales Manager of Polyhi Solidur and Dr. Wolfgang Bürkle, former CEO of SIMONA AG.

INDUSTRY INTERVIEWS: Jim McCormick, Vice President, Sales and Marketing, Cope Plastics, Godfrey, Illinois. Prior to joining Cope Jim spent over 20 years with plastic manufacturers such as Alcan Composites (Sintra, etc). He has a BS in Chemistry and an MBA, both from St. Louis University. We interviewed Jim at the IAPD convention in Chicago last month. This is Jim's second interview with this publication – previously held when he was at Alcan several years ago.

Q. How has the transition from manufacturer to distributor gone so far?

A. There are two answers to that question – from a results point of view, fantastic! I joined a winning distributor who is setting sales records as we speak. From an acclimatization point of view, I spend more time selling in one hour as a distributor than one month as a manufacturer. I learn something every day. Here the results are “in your face” measured by orders – as a manufacturer you're managing the channel, that is the distributor-manufacturer relationship. The feedback is immediate from the distributor's customer, with much more emphasis on today's sale.

Q. How has Cope Plastics changed since you first called on them as a manufacturer?

A. It was almost 20 years ago – they (we) are much more diversified. Historically Cope emphasized engineering plastics and in the last 5 years have emphasized see thru products, begun by Mike Tolimieri. Since joining the company I have put more of an emphasis on display markets. It's like the three legs of a stool – mechanicals, see thru's and display; making it a more stable business, with more emphasis and aggressiveness on growing the business. That's the job we do for manufacturers – to help grow their business and lower their manufacturing costs.

Q. What expansion plans are in the works?

A. We'll open in Chicago (Bolling Brook) on Jan. 1, 2006. With the addition of Michaela Hermann as a resident sales person in Austin, Texas, we will gain entry into the Mexican market; in fact we have received our first fabrication order there. We're increasing the size of our Minneapolis facility by 50% and doubling our St. Louis warehouse as well as adding a graphics conversion center there as part of Sheffield's PC film converting program. This will give us three manufacturing centers – Godfrey, Illinois; St. Louis and Cedar Rapids, Iowa. Our resultant product mix will be: 50% shapes distribution and 50% value added services.

Q. How do you see consolidation in distribution continuing? In manufacturing?

A. The weak are being gobbled up by multi-branch distributors and to survive distributors need to be either part of a national or regional operation or fill a niche – no one looks quite like Cope, with 200,000 square feet of fabrication under roof. Our vendor base consists of market leaders in each category. We also believe we are #1 in training with “certified mechanical specialists” resulting from 4 weeks classroom training that take place at Cope, Quadrant and PolyHi Solidur.

We then go out and call on metal OEM's to convert them to plastic parts. That's one of our niches as a regional distributor.

... to be continued in our November 2005 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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