Mel Ettenson's GLOBAL PLASTICS LETTER
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"Forecasts for Plastics Management Decisionmaking"

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Dear Colleague:

As we approach the end of 3Q 2001, it appears that the forces driving economic growth in global markets have weakened significantly. In the U.S. the long period of expansion has come to an end. The Japanese economy is stagnating and in many emerging markets the situation has deteriorated as a result of decreased export opportunities.
Thus, our industry has been impacted globally and although no one uses the "r" word since the economists definition of negative growth in two or more quarters hasn't been exactly met, we are calling it an "intermission" not a recession.
There are encouraging signs on the horizon, with a report just out from the NAPM that the manufacturing activity index increased in August with the apparent low point coming in January. In addition new orders jumped in August, further indications of a beginning turnaround in the manufacturing sector – a key indicator of the long awaited recovery and a possible resumption of the business cycle aimed at resuming growth. It will be a long, slow climb back to levels of a year ago. How long? We estimate at least a year to return to a healthy growth of 3 1/2%.

The stalled high tech sector will stay that way for another year, but e-commerce will roar once again, starting 2005 as more businesses and homes acquire high speed connections, which will spawn new online products and services that will be in demand. High speed connections are the key to fulfilling the web's promise and since many small companies have neither DSL or cable high speed access, and since many small companies are the backbone of the plastic shapes industry, the next leg in the growth cycle of e-commerce for us will await this technology change.
Further, new internet applications such as online market research, business surveys, video on demand, and sampling opportunities, will fuel growth in the future, assuring additional e-commerce growth.

Good news on the energy front this winter as supplies improve … natural gas (affecting many of our plastics materials) dipping to $2/mil btu in Oct and $3 from Dec to Feb, still a break from the upward spiral we've seen all year – augurs well for continued caps on prices for most TP's next year.

Remarkably strong housing markets are likely to remain that way. Starts, this year and next, will be only modestly lower than last year. Sales of new homes are on the rise, nearing the record set two years ago. This should affect the PVC and PVF business favorably this year and next.

Other predictions: Interest rates will continue to drop in '01 and early '02 as investment stalls.

TRENDS: Plastic product shipments show big gain in July as the largest monthly increase in shipments of plastic and rubber products in more than five years pushed new orders for manufactured goods up 4.3% from June, according to US Commerce Dept.
In 1999 the world's total output of plastic resin was 156,720,000 tons, an increase of 5.1% from 1998, with US, Japan, Germany, S. Korea and China being the top 5 producers globally. That annual increase is expected for 2000 and beyond, when figures are released. China is expected to be the fastest growing of the group – by 2005 it is anticipated to contribute 25,000,000 tons to world-wide capacity. Incidentally, Germany appears to be the most active plastic trading partner with China, currently.
With the continuing globalization of the plastics industry, it might be well for all of us to bone up on business customs in each of the countries we either are doing business with or expect to in the future – some examples are: should you hug a Russian (but not a Dutchman) when you meet?; in Brazil, despite the heat, business people dress quite formally; in India, if presenting a business gift avoid black or white paper which is considered unlucky; in Australia each person takes a turn at buying drinks and pays for their own dinners; in China biting nails or removing food from teeth is considered vulgar while spitting in public is acceptable. Incidentally don't hug either the Russian or Dutchman but use a handshake unless you're old friends – and a Russian touching your arm or shoulder during conversation is a sign of confidence. For more details on global business etiquette contact our website at: www.globalplasticsletter.com or email us for specifics on the country you need to know more about.

We recently were made aware of an interview conducted with Jack Welch, outgoing CEO of GE and the driver of their immensely successful Plastics business. It was a Q&A session at Fairfield University in CT and was conducted by Geoffrey Colvin of FORTUNE magazine. Some excerpts (courtesy of Bing Carbone of Modern Plastics, Bridgeport, CT):

On using the net at GE for buying:
" We bought 7 billion dollars all over the world in products – and the auctions are in China, Malaysia and India – you look at the screen and you're getting prices all hours from all over the world."

Q. Customers have all this info from your website – they can see where their shipment is and GE's specs and those of competitors, real time … they have more power in this world than ever before – is that a threat?
A. ***It will be – we'll do $14 billion in auction buying this year – we at GE have yet to be auctioned.***

Q. You want to buy thru auctions but don't want to be an object of auctions?
A. *You want to do everything possible not to be auctioned. You want to make sure your products are high value. If you end up on a screen, you're a dead pigeon. So you want to fight like hell not to be auctioned. You want to provide more services, more long term solutions – get the package together or you will be commoditized – and* ***then they will put you on a screen with a price.***

Q. Some things GE makes could be commoditized by their nature – such as?
A. *Plastics!*

Q. How do you prevent those things from becoming commoditized?
A. *By providing defect-free quality, faster and better customer service –* ***own the customer!*** *– it's the only game in town. Not doing that, if you can't differentiate yourself either through technology or through customer service and speed, you're just another person on the screen.*
NOTE: The complete video of Jack Welch's speech "Life and Business Philosophy" given at Fairfield University April 2001 is available from C-Span.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: Piedmont Plastics goes on buying binge, acquiring Webb Plastics, Chicago and Daytona Plastix, Fla. (distribution assets only- 19 employees; marine fabrication was sold to Jet Technology – Tom Loebel retains injection molding business.) International Paper sells Masonite business to Premdor Inc.

PERS0NNEL: Kurt Glaser, formerly President of A.L. Hyde has re-joined the plastics shapes industry as V.P. Sales & Marketing for Sheffield Plastics, div Bayer. Tim Butler, formerly of Laird Plastics joins Nytef Group. NOVA Chemicals names John Siegrist and Grant Thomson as VP's Sales, PS and PE Polymers business, respectively. INEOS Acrylics names Jeff Davis President INEOS USA .

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech announces third quarter sales and earnings – sales at $223 million, down 13% with earnings at $24 million – down 22% from the same period last year. Separately Spartech Polycom, a jv with Washington Penn Plastics is formed to produce post-consumer recycled PP resins.

Atofina increases Kynar resin capacity at its KY (USA) plant by 10% with a $ 3.5 million investment. Mitsubishi Rayon and Marubeni plan to establish the first foreign-owned acrylic resin plant in China with 40,000 metric ton capacity to come on stream in 2003 to meet China's 10% annual growth vs 3% worldwide. Tirupati Plastic Industries of India has set up a sheet extrusion line to produce a variety of polymers including ABS, PET, PVC, PE and PP – initial capacity is 1200 metric tons.

Sumitomo and Mitsui Chemicals buy out Ube Industries stake in Grand Polymer to form the second largest PP producer in Japan. Bayer signs on to $ 340 million PC project in Shanghai, China in a jv with Shanghai Chloride Co. Ltd to produce 100,000 tons of PC by 2005. Separately Bayer shuts 15 polymer plants worldwide to adjust capacity. BP closes its LDPE film plant in Wilton, UK stating it can no longer compete in this commodity plastic market.

Curbell closes its Erie and York, Pa. Branches and TMX AIN shutters its PA, NJ and FLA warehouses. Thyssen Krupp and Rohm GMBH pool their plastics operations in Germany. Basell supplying nanocomposites of TPO (thermoplastic olefin) to GM for 2002 midsize vans - purported to be breakthrough technology. Plastimagen 2002 is announced as the premier plastic trade show for Latin American markets – it is to be held Sept 3-6, 2002 in Mexico City. Eastman Chemical spins off PET business and names it Voridian Co.

Mitsubishi Gas Chemical and TOA Chemical will double acetal capacity in Thailand. PC capacity continues to grow in Asia with jvs between Mitsubishi and TOA in Thailand, and Samyang Kasei in Korea. Maine Poly files bankruptcy and closes Greene, Maine plant.

Germany's profile extruder Troplast which bought Kommerling last year has expanded production into Russia and starts up PVC compounding line in Berlin. BASF sets up Styrolux SBS (styrene butadiene styrene) copolymer resin plant in Mexico.

PRICING: PS pricing continues to drop – an average of 3 cents per pound for the last several months with no change in sight. PP and PE also look soft, although some attempts to move PP and PE upwards last month are still in question. Shapes, especially PVF look firm for the next several months and some attempts at an increase may set in late 4Q '01 as the traditional late December shape price movements are in place and a hint of a recovery will assure it will be tried.

INDUSTRY INTERVIEWS:

INTERVIEW WITH CRAIG HAMPTON, VP MARKETING, THE NYTEF GROUP

Q. What companies constitute THE NYTEF GROUP? How many locations, people?
A. *The Nytef Group is comprised of three distinct and separate companies, Nytef Plastics, Ltd., Transparent Protection Systems, Inc. and Comco Plastics. Currently The Nytef Group has nine locations in the U.S., with 180 employees in seven states.*

Q. What are your approximate annual sales? What are your products?
A. *The Nytef Group does not at this time publish annual sales volume.*
Nytef Plastics, Ltd. manufactures a broad range of engineering plastics in sheet, rod and tube form, from standard Unipa® (nylon) and Unital® (acetal) to highly specific "engineered performance materials" that are designed to solve design problems for both plant maintenance items and at the OEM component part level.

Transparent Protection Systems, Inc. (TPS) produces both standard and custom profile extrusions, of which the most well known is ClearGuard® Hurricane Panels, made from Lexan® polycarbonate resin. ClearGuard panels are the only plastic storm panels available that meet both SBCCI and Metro-Dade requirements for approved storm protection. Additionally, TPS produces polycarbonate framing profiles for multi-wall polycarbonate sheet.

Comco Plastics has two locations dedicated to precision fabrication of most types of plastics. Comco-Woodhaven specializes primarily in precision-machined engineering plastics, while Comco-Saugus specializes in multiple component fabrication and assembly operations.

Q. What are your channels of distribution?
A. *Nytef Plastics, Ltd. sells exclusively through plastics distributors, generally speaking IAPD members in good standing. Transparent Protection Systems sells through a national network of both Authorized Dealer/ Installers and plastics distributors. Comco Plastics sells to OEM's as well as plastics distributors and other re-sellers.*

Q. Will you remain in the IAPD? How would you like to see it improved?
A. *Nytef Plastics has every intention of remaining a member of the IAPD for the foreseeable future. I think the IAPD has done so many positive things to advance the cause of plastics distribution, that it is difficult to suggest improvements, but…I would like to see more involvement from a wider range of plastics distributors, to include some of the smaller companies that haven't traditionally been involved in the core work of the IAPD. I think everyone in the plastics distribution arena has a voice that needs to be heard, regardless of the size of the organization.*

… To be continued in the October 2001 Global Plastics Letter

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