



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

At the end of 3Q 2002, we face a sluggish, spotty economy. Expect higher oil prices through September, with concurrent spikes in gasoline and most petrochemical building blocks and their effect on polymer prices which will continue to climb throughout 4Q 2002 and into 2003.

Yet many companies continue to thrive even if its happenstance... being in the right region or better marketplaces – or benefiting by the poor performances of major competitors (read GEPS).

Other companies are MAKING their luck by beefing up customer service; thinking outside the “box” (value added services); being aggressive and offering innovative products and services.

Speculation about a credit crunch is unfounded. Businesses will find bank’s willingness to lend, albeit with tough standards, to be at normal levels. But few companies are in the mood to borrow with sales and profits still weak. There will continue to be a mixed picture of sales and profits growth into 2003 – some firms doing better than last year, others struggling to keep up with 2000 levels. Again the “happenstance” factor will sort out the improvers from the plodders, with most targeting 2003 to get back to a growth pattern vs. 2000 – a long wait for an industry such as ours used to double digit growth in the 90’s.

Meanwhile, the cautious mood will slow inventory rebuilding with distributors and manufacturers waiting to confirm rising sales before restocking – slow growth in new orders is one reason near-term growth will be languid. A dearth of new products, typical at this stage of the plastics business cycle, will also hold down growth. Basics will prevail in most company’s attempts to “beat yesterday”- one exception - security-oriented products and services will be one of the fastest growing industry segments in the next 12-18 months. For more information, see website www.techexpo.gov.

TRENDS: Much has recently been written and discussed about the “bubble years”, in the recent past. There’s no mystery about the causes of our economic funk: the bubble years left us with too much capacity, too much debt and a backlog of business scandals – we shouldn’t have expected a quick and easy recovery and we’re not getting one. Yet... the outlook for plastics is rosier than ever with the evolution of stronger materials with wider temperature ranges. The 90’s did spawn R&D expenditures that will be paying dividends later in this decade. Additionally the mergers and spin-offs of several materials producers bodes well for the global supply of shapes leading to the resumption of a brisk business pace beginning in 2003. When the consolidation of distribution moves made in the late 90’s finally results in a clear pattern among the remainder companies – when GEPS makes their final transition decisions (sell or close?), then and only then will the course be clearer for the balance of this decade. Stay tuned!

As demand from Asia increases, demand for polyester will outstrip supply by 2008, according to a recent reliable research survey. However, Syntex, an ICI company, has developed a titanium catalyst which increases productivity by 15%.

On the other hand, according to BRG Townsend Consulting, LCP (liquid crystal polymer) capacity is outstripping demand and the six major global suppliers, Ticona; Solvay; DuPont; Polyplastics (jv of Ticona and Daicel); Sumitomo and Eastman find themselves with a polymer utilization rate of 40% - this put downward pressure on pricing in North America and Japan where all the LCP is produced – currently at 30,500 metric tons, with virtually all compounded with glass, carbon fiber and other fillers. Primary demand for LCP’s is E/E connector applications, particularly those that are contained in desktop computers. Should computer demand increase, LCP’s could resume double digit growth, but not before 2005-2007.

In the PE sector, the Asia/Pacific region is set to surpass North America as the global leader in PE consumption – primary growth has come from China where semi-finished exports are expected to exhibit double digit growth during the balance of this decade. Pipe, conduit and film will be the major market segments experiencing this growth. Details available from the PE Annual Report published by P. Townsend Associates.

A gee-whiz product for those who hate typing ... Video e-mail from Talkway who provide a webcam and software for a monthly measured minutes fee – high speed web hookups not necessary but Outlook Express e-mail is. Speaking of email, it is now acknowledged that this and the internet have joined the landmark inventions of the past – the printing press (1450’s); the telegraph (1830’s); the railroad (1820’s) and radio (1906), in changing the way we live and work.

Soon to be added to the business world’s evolution are “web bots” – virtual assistants that can answer most customers questions. With the help of natural language processing technology, a web bot is able to understand a customer’s question, then retrieve an answer from its library database. This technology is helping firms provide help from human customer service representatives, who unable to answer customer questions, immediately can feed queries into a trouble shooting library to access potential responses.

Think you’re selling commodities? Think again about your “offering” which should differentiate you and your service from your competitors despite the apparent similarities of the product.

The customer buys it from a company and a person which is the offering that may include differences in terms, delivery, value added services, follow up, return policy etc.

Translate all these into statements of benefit to the customer ... and then and only then will the commodity perception begin to disappear and the relationship supplant it. Critical in these days of perceptions of a buyers market in a “double dip” recession atmosphere.

PRICING: PE and PP prices continue their climb with another single digit (cents/pound) price increase tacked on to earlier hikes – now up double digits this year. Exports, especially to Asia managed to use up some previous excess capacity. PVC and Styrene prices have also been edging upwards with no interruption in that trend likely in the foreseeable future. Major capacity additions in most thermoplastic resins are not due to come on stream until later in this decade, thus adding to the upward pressure on prices, especially if demand resumes past growth rates.

Rohm and Haas experienced a power outage at their methyl methacrylate (MMA) facility in Texas which results in an eight week period of reduced supplies – this will put pressure on acrylic sheet prices whose previous announced hikes will surely stick and may even result in a second increase in 2002.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: BASF sells its Luranyl PPE/PS business to Romira GmbH of Germany, a unit of the Rowa group of companies that specializes in styrenic copolymers. Eastman Chemical agrees to appoint Geocell Systems to be exclusive supplier of copolyester used in Geocell's Rapid Depolyment Flood Wall, replacing conventional sandbags - Spartech is the extruder for this reusable and labor saving innovation in flood control.

Bayer Plastics and Acheson Colloids have entered into a jv to promote formable shielding film using conductive inks with Makrofol® and Bayfol® PC films with applications as formable shields in electronics and medical market segments.

DuPont Dow and Polyone Corp. have agreed to jointly develop TPE compounds based on metallocene polyolefin elastomers – said to be superior in performance to materials such as EPDM and TPU especially in extrusion form.

Atofina has purchased the remaining 50% interest in Metco and Metablen from its former jv partner, Mitsubishi Rayon Ltd.

Solvay sells its fluoropolymers unit in Alabama to U.S. based Dyneon LLC, a wholly owned subsidiary of 3M which produces PTFE resins and now adds PVDF with this move. Solvay's divestment was a result of its acquisition of Ausimont of Italy and was a condition imposed by European and U.S. regulators.

Crawford Industries, a sheet extruder and convertor buys Polyblend's HDPE and PP sheet plant from Acco – annual sales of \$5 million will add to Crawford's (subsidiary of Horizon Five Star) 2001 reported sales of \$25 million.

GE Plastics completing a \$45 million ULTEM expansion at its plant in Indiana.

DSM and Sinopec form caprolactum joint venture in China – called Nanjing Chemical Industries Ltd, DSM will have a 60% stake in this move to supply nylon 6 to Asian markets which are the fastest growing global markets for this key thermoplastic. DSM has caprolactum plants in the U.S. and Netherlands with a total capacity of 500,000 metric tons per year.

TOTAL Plastics, division AM.Castle Co, a major metals distributor, to expand into New York with the opening of its ninth branch in Mt. Vernon.

DISTRIBUTOR/MANUFACTURER BRIEFS: CYRO Industries introduced ROHAGLAS 99526 film with improved printing and capabilities and weatherability with depth of image.

GE Plastics promoting Luminescent Visualfx which is said to glow in the dark and will be made available in resin and possibly sheet and film form for safety-related applications.

Bunzl plc, UK based and parent of Southern Plastics and other extrusion operations and cap and plug producer Alliance Plastics, reorganizes into two divisions from its UK base – 6 month sales at 1.3 billion euros. Also in the UK, British Vita, which recently divested its interest in Spartech Plastics, (U.S.), announced improved results with Spartech proceeds used to cut debt.

Bayer Plastics using special effect technology, called Fantasia, to add to value of its PC as film inserts and mirror effect as well as enhancing ABS with added color and special effects. Trend?

PEOPLE: Mark Kramer, becomes President of Laird Plastics, replacing John Perdue who is retiring – he comes from Vopak, a Dutch chemical distributor and chemical logistics provider. James Medalie has been promoted to President of Kleerdex Co., subsidiary of Sekisui America.

INDUSTRY INTERVIEWS: Peter Edelstein, Vice President, Sales and Distributor Operations, Laird Plastics. A graduate of the University of Arizona in 1972, with an MBA in management, Peter has been with Laird for 28 years.

Q. Some of your major competitor's have been acquired by GE – how will that effect Laird's strategy for the balance of this decade?

A. Our strategy is to be the local distributor in as many markets as possible – Laird plans to grow both internally and by acquisition.

Q. What will be the biggest changes in how Plastic sheet, rod, tube, film, pipe distribution will be done in the next 5 years?

A. First of all let me say that printed catalog prices are obsolete – most customers use either CD-ROM or websites to obtain information. The largest distributors will perform traditional distribution functions – but they will also have to provide a “fulfillment” for fee function in certain geographical areas and with certain products where traditional margins are too tight to be shared by both manufacturer and distributor.

Q. What are your plans, if any, for e-commerce or b-to-b business on the web? What percent of your customers are buying plastic products on the web?

A. Our plans are on hold – we are doing a significant number of transactions with our suppliers, especially managing inventory. However, we haven't seen e-commerce as a Win for our customers. Most customers want to negotiate prices, especially on large requirements. We currently have our catalog on our website and it is available as a CD ROM, with prices shown being list prices . Our customers can buy products on our website – but very few have done so; perhaps 1% at most; exceptions are customers who only buy at fixed prices established by national contracts.

Q. If a manufacturer supplier offered to pay you a fee to cut-to-size and/or deliver locally for an order taken on their website, what would be your response?

A. We wouldn't be interested – its our function to perform these services, not the manufacturers. However, there could be an opportunity where the margin is so low – the manufacturer might take the order direct and share the margin. We might be willing to do this in those cases depending on the geographical location.

Q. As a GE sheet and film distributor in Canada, what is your position regarding their now owning your competitors Cadillac Plastic and Commercial Plastics ?

A. Customers still perceive us as their supplier – Canadian customers need alternative choices for suppliers and we are seeing more business since customer now have more choices for Lexan – both GE and Laird. In the U.S., GE needs alternate channels for the Lexan brand and they have recognized this by setting up Modern Plastics as a Lexan distributor.

... to be continued in the October 2002 issue of The Global Plastics Letter

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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