



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

SEPTEMBER 2003

Dear Colleague:

This time around, the economic rebound is real ... there's little reason to believe it will reverse itself, as the recovery did in fall 2002. All signs point to sustained growth, with Iraq now a known problem, not an unknown entity. Consumers and businesses are confidently beginning to spend, with business investment going strong, rising 8% in 2Q 2003. This has been the bellwether indicator for lo these past three years. Next year economic growth is expected to rise to 4%, up from 2.5% this year and with business investment growing to 10% in 2004, we should see a vigorous plastics semi-finished products industry, finally! We believe that if September and October of this year are record months, year over year from 2001-2002, then the optimism we see expressed by many for 2004, will be reality. However if the next two months fall flat, we will see some casualties among some manufacturing and distribution factors in our industry.

Another economic concern to most global companies in our industry is the effect of the undervalued currency, (40% by most experts), of the Chinese yuan against most currencies of the global plastics industry. Unlike most other countries that allow market forces to set the relative value of their currencies, China has pegged the value of its yuan at around 8.3 per USD since 1994. Given China's remarkable growth, economists estimate that when Chinese manufacturers export a plastic product, they effectively receive a 40% subsidy, giving them a huge advantage over U.S., European and other Asian producers. With the proliferation of plastic resin and sheet manufacturing capacity in China, this represents a highly competitive threat to our global industry.

At this writing there is some movement by China to respond to global pressure to ameliorate this position, however China's main goal is to create jobs for its enormous population, and so this inequitable economic condition may persist and force more importing of plastics from China.

With China now consuming almost as much PP as the US, the monitoring of exports and imports from China is more critical than ever, especially since the Asia/Pacific region accounts for more than one-third of the worlds PP consumption.

TRENDS: Some economic trends to be noted are:

- Purchasing Managers Index up 4% in July 2003 versus June 2003
- Productivity for 2Q 2003 increased 5.7% versus 2.1% in previous quarter
- ISMA New Orders Index at 155.7 in June 2003 versus 151.6 in June 2003
- Durable Goods orders up 2.6% in June 2003

In addition to the above Industrial Distribution Indices, sales and earnings were reported slightly higher for 2Q 2003, year over year, for two major industrial distributors (who also sell some plastic shapes); namely WW Grainger, Motion Industries and Applied Industrial Technologies (formerly Bearings Inc).

In its 57th Annual Survey of Distributor Operations, Industrial Distribution Magazine reports some significant results – souring business relationships, an economic downturn and rising health care costs have taken their toll on distributors. In this extensive survey of nearly 800 distributors, 63% of the respondents said suppliers’ loyalty to distributors had “worsened somewhat or significantly.” Only 20% said that the relationship had improved, with 47% saying their loyalty to manufacturers had worsened. Clearly the “perfect storm” of the past three years has taken its toll in this important area of our business that has long struggled to forge a lasting peace.

Two other significant statistics are that only 24% have integrated supply contracts with their customers... and that 83% are still family owned. For further details we suggest a visit to www.inddist.com for a look at their August 2003 Survey Issue.

We recently attended a press conference at the Economic Club of Detroit, which featured Bill Gates as its keynote speaker and he had one word to sum up his technology forecast for the balance of this decade: “Plastics.” Gates predicted a plastic card (smart card) would be carried by all which would serve as a “digital wallet” to be used for everything from starting your car to performing all business transactions – this in the next 3-5 years! Coupled with a wrist watch computer, and with email costing .000001 cent to send; surely a fascinating look ahead from someone who changed the way business is conducted now compared to 10 years ago.

Proposed US government rules regulating sending of business faxes have been postponed – it would have required written permission from every business recipient of a fax BEFORE a fax could be sent, even if the customer verbally requested it. However some new rules are scheduled to be implemented in 2005 – keep an eye out for these new cumbersome obstacles to marketing and routine transactions... a concerted campaign of objections from the distribution industry primarily helped in the delay.

In order for both manufacturers and distributors to boost their inventory forecasting accuracy, the NAW has produced a new publication, *Guess Right*, now available at www.naw.org. The book utilizes never-before-published input from distributors of all sizes and product lines as well as the results of research into state of the art inventory forecasting software packages. As the times begin to call for inventory building, the timeliness of this report cannot be overstated.

PRICING: The pricing picture is mixed at this writing – PP is under pressure to go up while PS and PE are temporarily stable. ABS remains soft; PVC is under demand pressure to rise incrementally, while PETG is looking at forward demand and single digit price increases.

Nylon continues to grow in volume in every region with Asia leading the way and thus could come under pressure for another increase by 4Q 2003. PC supply is abundant, and after a strong production year in 2002, operating rates for resin were below 80% on a global basis. Increases in demand for PC is almost entirely attributable to China. However the introduction of “paint-like” PC could spike demand for PC sheet and thus result in price increases in 2004.

MMA sheet prices, increases having been put on hold, should resume their upward trend in 2004.

DISTRIBUTOR/MANUFACTURER BRIEFS: Spartech is cutting 350 jobs and closing several warehouses in an attempt to improve profitability, after a large drop-off in 3Q 2003 profits on a 1% increase in sales for comparable quarters. British Vita, which sold 28% of its 46% share in Spartech last year intends to sell its remaining shares soon, according to recent company announcements. Alcan Composites USA has received an ISO 14001 certificate of registration from Underwriters Laboratory for the environmental management at its Benton, KY facility. CYRO Industries introduces Acrylite Radiant sheet to create light shows, color changes and eye-catching movement at point of sale for the POP industry. Ensinger-Hyde announces Ensifide GF 40 – a line of extruded 40% glass reinforced linear PPS rod and plate, the highest known glass loadings offering outstanding tensile and flexural modulus properties, even approaching those of PEEK. Quadrant reports 1st half sales and profits lower than corresponding period in 2002, due to weakness in the U.S. and Germany, especially in the automotive, mechanical and systems engineering and semiconductor industries. Quadrant's outlook is for a recovery in 2004.

Vink, the Danish supplier of semi-finished plastics, established a sales and distribution partnership with Makroform which will center on co-polyester sheet such as Axpert and Vivak.

Last year Vink, which is owned by Kendrion of the Netherlands, had sales of E20 and employs 1000 people. Bayer became the sole shareholder in Makroform last month, when it bought out Roehm for an undisclosed amount. The fall-out of Lucite International's foray into distribution with its Perspex Distribution unit appears to be starting! Ajedium Film Group of Newark, Delaware (US), a start-up maker of specialty engineering resin films has successfully extruded films as thin as .00025 in. They claim to be able to produce PEEK, PPS, Ultem, PMP and PVDF in these super thin gauges and up to .050 in. Basell production cuts exacerbate European PE resin shortage expected to continue into September.

Degussa's Plexiglas Division will begin MMA sheet extrusion of Plexiglas in Russia next year. The sheet will be produced by a three-way joint venture company, owned by Degussa's Rohm subsidiary and two Russian companies, ZAO Orgesteklo and Unichem Group.

PEOPLE: Peter Vanacker appointed to Executive Committee of Bayer Polymer, heading up Europe, Middle East and Africa regions. Rick Gough is Regional Manager, Great Lakes and Rob Hohner is Sourcing Manager for GE Polymershapes. Dave Bauld, formerly GEPS, joins Curbell. Joe Turley, of GBM Plastics Ltd of Ireland is new President of EPDA.

INDUSTRY INTERVIEWS: Scott Telesz, President and General Manager, GE Polymershapes.

Scott who resides in North Carolina, joined GEPS from GE Supply. We interviewed him by phone and email from his office in Huntersville, N.C.

Q. What business background do you bring to your new position as head of GE Polymershapes?

A. Prior to joining GE Polymershapes, I was the GM of Supply Chain Management for GE Supply, a \$2.5 billion distributor of electrical products. That was basically a COO type of role. I spent several years within the GE Supply organization in a variety of roles. So all my GE experience is in distribution, not manufacturing. Prior to GE, I was with McKinsey & Company, a management-consulting firm, focusing on operations and strategy, primarily in the manufacturing and transportation sectors.

Q. What is your vision for GEPS for the next year? Three years?

A. It's a three-part vision regardless of the time frame. First, I want our customers to regard us as the preferred plastic shapes distributor, with outstanding fabrication and film conversion capabilities. Preferred for the products and services we provide, the close professional relationships we foster, and the overall value we bring to their business.

Second, I want our suppliers to view us as the preferred channel to market. To do that we must continue to grow, represent their brands well, and foster a greater sense of partnership in how we go to market together.

Third, I want our employees to regard GE Polymershapes as the employer of choice in the plastics distribution industry. We have the most career growth potential, leveraging all that GE Company has to offer. We must continue to reward and recognize their achievements. We must help them by providing tools and skill development to enable them to succeed in their individual roles to meet their personal and professional goals.

Q. What initiatives will you launch that are different and more successful than your predecessors?

A. As I mentioned earlier, all my GE experience is in the distribution world, as opposed to the manufacturing-centric world of much of GE's industrial businesses, so I look at Polymershapes a little differently than my predecessors. I view Shapes first as a distributor, with all that is involved in making a distribution business successful, and second that it's in the plastics industry. I've spent time in more than a hundred distribution branches. I know what makes distributors succeed vs. fail.

I wouldn't use the term "initiatives," but in January I outlined our 5 business priorities for the year. Generically speaking, they could apply to any distribution business:

- 1. Grow Revenue – critical to outpace market growth; encompasses new geographies, new products, and new customers.*
- 2. Increase Trade Margin \$ - work with suppliers for vendor supported pricing on strategic deals; price smart out the door to customers, differentiating for value and relying on local market intelligence and flexibility.*
- 3. Operational Excellence – safety first always; also on time delivery and cost productivity. We'll leverage 6 sigma heavily here.*
- 4. Generate Cash – lifeblood for any business. Since distribution is not capex intensive, it comes down to managing A/R, A/P and Inventory efficiently.*
- 5. Invest in People – distribution is a people-business. The company that fields the best team everyday wins. Easy to say, tougher to do.*

Q. How is GEPS organized globally? What is the reporting structure?

A. The US, Latin America and Canada operations report to me. I report to John Krenicki, CEO of GE Plastics. European and Pacific distribution operations, which are significantly smaller than the Americas, report through business leaders in those geographies.

Q. Having come from GE Supply, how do you see GEPPS as similar? Different?

A. The basics of both distribution businesses are very similar: branches, inside and outside salespeople, warehouses, many small \$ orders, critical local customer touch, importance of strong supplier relations, and many independent competitors. Another parallel is that both distributors have GE manufacturing businesses as important strategic suppliers for a large chunk, but not a majority of their volume. That said, both are operated as stand-alone P&L's.

The obvious differences are the product line (plastic shapes vs. electrical products) and the associated product technologies, the size and scale of the respective industries and branches (plastics smaller), and general economic condition of the entire industry of supplier-distributor-end-use-customer (plastics in midst of a tougher downturn).

...to be continued in the October 2003 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.