



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

DECEMBER 2002

Dear Colleague:

As 2002, the year of the economic recovery that didn't happen, winds down, the look ahead at 2003 is optimistic but filled with uncertainty again. A mild improvement – even if it's an improvement from “intolerable” to “pretty bad” – makes the whole experience seem better, and a bad ending makes everything seem worse. That's what happened this year, which was billed as the “next year” in the cry “wait till next year”. That might explain why business people in our industry still feel gloomy. Even after the stock market crash and the recession of 2001 – and of course terrorism's devastating toll on the world economy, the globe is a lot richer than it would have been had we muddled through the past decade – it was the decade of BOOM and GLOOM!

The fact that we're earning more may not be enough to cancel out the effects of a manic-depressive stock market. Can unhappiness hurt an economy? Some studies show that people may know when they're happy, but they often don't know what will make them happy. Studies show that self-described happy people earn more and are more productive – of course we don't know if success makes them happy or vice versa. And clearly economic malaise can feed on itself: glum investors turn miserly, consumers get tight and businessmen balk at risk. Hard as it may be to believe, the future of the global plastics economy looks bright, in the long term. But to get there we need to look on the sunny side.

Another burgeoning economic concern has become deflation... the broadest measure of prices in most global economies shows they rose less than 1 percent during the 12 months ending September 2002 – the smallest increase in 50 years. Until now, the slowdown in overall inflation has been a boon to most economies, giving consumers more for their money and allowing living standards to continue to rise even during the period of slow economic growth that we've experienced in the past two years. But if this disinflation turns to deflation, a broad and sustained decline in prices – it would create a dangerous dynamic that could drag economies into a recession which would be difficult to escape. One only needs to look at acrylic sheet market prices to see its effect in our industry (we use this bellwether item only as an example). Looking at a catalog dated 1966 from a leading distributor then and still today, a list price of \$1.13 per square foot (for cast grade) for a single sheet of 1/8 clear compares amazingly with prices (extruded grade) quoted today – 36 years later! Deflationary periods - when companies seemingly increase productivity and pass lower costs on to customers resulting in gains for all – has a down side... businesses knowing prices are falling will put off buying things making recessions worse and driving down prices and wages. Airlines and telecommunications are showing signs of this now. We will be watching this looming threat to recovery in the next months, as it effects our industry.

TRENDS: First a note – the SIC code for our industry which was 5162 – now succeeded by the NAICS system which assigned 422610 (Plastic Basic Shapes-wholesale). North American marketing initiatives should be focusing in on this new system and number.

Looking at investments in new computer technology and systems? Recent reports prove that it's how we use computers that count and that a strategy needs to be developed before the investment is made – be sure that in addition to having customer information your system allows for selling new products and services.

Engineering and High Performance Plastics bright future is ensured with trendlines that have been developed by many manufacturers as reported recently in a conference devoted to these important product groups. Ryton PPS/Elastomer Alloys, Plastic-Metal Hybrid Technology, Flame Retardant PBT, Nanocomposite Barrier Nylon and Bonding without adhesives were some of the topics presented recently at a conference in Chicago – for more information and details go to: www.principalgroup.net.

In a recent interview in USA TODAY, GE's CEO Jeff Immelt (who rose through GE Plastic ranks), forecast the following trends:

- Prepare for Five More Years of Slow Growth
- Price pressures will affect margins adversely
- Innovate now with new services as well as products
- Execute small successes, not depend on large ones
- Look for talent everywhere in your organization to help innovate
- Consider alternate pricing models such as bundling prices for services.

Two innovations that can cut your electricity costs: An adapter that powers up PC's, copiers and other office machines only as needed – can cut cost 10% (from Power Integrations). Also a battery that cranks up instantly when electricity fails (NKG Insulators).

Materials trends to watch – steel foam, light as aluminum yet retains most strength of steel, and drills that use microwave beams to bore through small parts as well as make larger holes in construction items.

Survey: Average industrial distributor owner/manager earns medium to high five figure salary and bonus, is 44 years old, holds a bachelor's degree and has 17 years industry experience.

Freight rates continue to climb as fuel costs and effects of dock strike pressure most carriers, road and air, who have successfully passed on price increases to their customers.

PRICING: The annual flurry of price increases that coincide with end of year celebrations, which sometimes get pushed back to Jan. and Feb., is upon us. Recent announcements of increases in PE and PP in the range of 2-3 cents per pound appear to be realistic reflections of market conditions as announced by Dow, Basel, Formosa, Atofina and Chevron/Phillips.

PVC and PS prices are the exception and are expected to survive the coming of 2003, remaining stable to slightly lower. In Europe, Dow has upped polyolefin by 100 Euros a tonne. The outlook for Europe is that prices of most materials will be set for an upturn as supply tightens in 2003 – some due to market conditions and some to adjusting production downwards. The U.S. outlook is comparable, led by increases in MMA and PC resin and sheet. Some of the HPM's and ETP's will undoubtedly follow in the first half of next year.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: GE Polymershapes opens new branch facility (its first since 2001) in St. Louis, MO, returning to that market after having closed the former Cadillac Plastic facility there. Its new distribution center is said to be inside of a GE Supply facility with Kansas City and others scheduled for 2003.

Its numbers are now 1100 employees in 80 facilities in 17 countries. Alleged annual revenue is reported to be in the range of \$420 million per year.

Ticona, whose parent is Celanese AG, announces several major expansions: a 220 million pound acetal expansion in Germany by mid-2003; a PPS expansion in N.C. by 2002 in a jv with Kureha Chemical (called Fortron); a new 130 million pound acetal plant in China by 2005; and a potential PBT plant in a jv with DSM in Europe by 2005. Additionally new grades of acetal, PPS and PBT are now offered as well as Topas brand cyclic olefin copolymer, pegged for packaging film markets.

Klockner Pentaplast is adding rigid PVC film capacity with its purchase of Neoplastica of Portugal and expansion of its Virginia plant in the U.S., giving it more than \$400 million sales in the Americas, in addition to the \$80 million represented by Neoplastica in Europe. Cinven Ltd of Germany is Klockner's new owner. CPI Plastics Group of Canada acquires the business of Mid-America Bag in Chicago for \$US 6.1 million, adding to its seven plant producing PE bags and custom profile extrusions.

Australia's two leading associations for the pipe industry have merged into the Plastic Industry Pipe Association of Australia – a harbinger of similar moves in other countries?

U.S. Display Consortium, formed to develop plastic substrate film for flat panel displays, announced a multi-million dollar project in alliance with GE Global Research.

Association of Dutch Plastic Suppliers formed with 20 member companies representing more than 50% of the sectors total annual sales in the Netherlands. Trends abound.

Solvay to set up new fluoropolymers business in 2003 under the name of Solvay Solexis, combining the Ausimont business acquired in 2002 for 1.3 billion Euros.

Dow adds 165 million pound capacity for Magnum ABS at its plant in the Netherlands, bringing worldwide capacity to 865 million pounds.

DISTRIBUTOR/MANUFACTURER BRIEFS: Plaskolite receives ICBO certification on Duraplex® Impact Modified Acrylic Sheet, as being in compliance with the 1997 Uniform Building Code as well as for use in skylights.

Eastman Chemical's Tenite butyrate going strong with Cytex, a major extruder of profiles for the POP industry, with 27 extrusion lines producing over 1600 products.

Bayer's Plastic/Metal Hybrid technology holds out great promise for growth industries – new applications outlined in a new brochure available now at www.BayerPlastics.com.

GE restructuring Plastics unit as well as Aircraft Engines as part of a multi-billion dollar charge. Speaking of GE, John Kramer, formerly leader at GE Polymershapes, joins Industrial Distribution Group (IDG) as Midwest Division President. IDG is a major MRO Distributor, headquartered in Atlanta, GA (US), with 64 locations.

INDUSTRY INTERVIEW:

... continuing our interview with Ken Baker, CEO, Newage Industries, Southampton, PA.

Q. What will be your largest growth industries/products in this decade?

A. Certainly the Advantapure line with its applications in the Pharmaceutical, Food, Biotech, and Cosmetics Industries will be leading the way to sustained growth. Since the product line consists of fluid control products, these industries can benefit greatly by the innovations we have made. Additionally, Silicone Braided (and unbraided) Hose and mandrel wrapped silicone hose for high purity applications should be a growth product.

Q. Are there any other products and or markets that you see holding out great growth potential?

A. Stainless overbraided Teflon hose and sanitary fittings will be an exciting new opportunity for us in many of the aforementioned markets and industries. In addition rubber coated and jacketed Teflon hose looks like a winning product.

Q. It sounds as if Teflon products will be a new and important focus for you – how will you execute this since you don't currently manufacture Teflon products?

A. We will be involved in a joint venture with one or several TFE tubing producers which will afford us the opportunity to go further with this group of products.

Q. How will Newage approach e-commerce?

A. We have a new website in testing now and will be up and running this month. It will allow distributors and large OEM's to check our inventory. We currently have 2 URL's, www.newageindustries.com and www.advantapure.com which are linked to our Legacy system. We of course will continually improve our websites.

Q. Since you have always been a highly promotion minded company, we wonder, what percent of sales does your marketing, advertising and sales promotion budget comprise?

A. I'd rather not say, for competitive reasons, but we've always believed in advertising and believe it or not it started with my mother who was head of advertising. We always had a printing press in our basement at home where she ground out our advertising during the first days of our company's existence. It led to great opportunities and growth and got us to this outstanding position in the industry.

Q. What is Newage's culture?

A. We've completed TQM Training which affects the quality of our products and people and how we talk to each other.

When mistakes are made, we learn from them and how to correct them by talking openly about them.

We have 22 basic rules that we follow in dealing with each other and how we go about our business. It's so successful that people who have left us usually come back.

Thank you.

Our best wishes to all our readers for a Safe and Happy Holiday Season.
May next year be a Peaceful and Prosperous New Year.

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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