



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JANUARY 2003

Dear Colleague:

Happier New Year! ... or will it be? Most signs point to a gradual return to the global growth cycles of the 1990's and into 2000, however, the specter of deflation looms ominously and the threat of war, continued terrorism and disruption of oil supplies (both in Iraq and Venezuela) could alter the scenario. Pent up demand as well as swelling investment needs and defense spending augers well for brisk economic activity in 2003 and thus we are forecasting 8-9% revenue and profit growth for our industry in 2003. In our January 2002 newsletter, we foresaw a surge of confidence reversing uncertainty which tempered economic growth – it didn't happen! Thus we must once again add a disclaimer to this years forecast, but another year of demand and investment build-up is behind us and points to the resumption of economic growth in 2003.

Traditionally higher oil prices cause a swell in plastics shapes prices ... and this year is starting with a similar scenario. Deflation is lurking and a surge in actual output in pounds (or kilos) will be needed to sustain growth. With expenses cut to their maximum, people assets are beginning to go beyond the point of no return. It will be difficult to staff many organizations in order to handle projected growth – thus productivity gains such as automating many sales and marketing functions (most production functions are already highly automated) need to be even further enhanced ... and without sacrificing customer contact experiences.

In an interview dated Jan. 2, 2003, Jeff Immelt, CEO of GE, predicted GE's Plastics (GEP) business will increase revenues by 13% to US \$6B in 2003, with a 10% increase in profits to US \$1B. Leading this growth will be GEP's priorities of Asia, Ultem®, and films for LCD displays. What portion of this is represented by GE Polymershapes was not disclosed, however the optimism is both noteworthy and hopefully infectious, since Immelt started his GE career at GEP.

TRENDS: Many industries, such as plastic shapes, are slow to adopt technologies such as Web services and XML and remain wedded to EDI. However, small or medium-sized companies can conduct B-to-B transactions with the largest companies in the world with very little up-front investment and modest continuing costs.

Some additional and important trends to look for in 2003:

- More mergers and acquisitions – distributors and manufacturers will be active and some possibility of continued integration of both mergers and acquisitions as we saw with GE in 2001
- Fee-based services will grow with large distributors acquiring fabricators. Also, manufacturers will join this trend of fee-for-service
- Customer supplier reduction and/or exclusivity in distribution continues or is enhanced by strategic moves by all parties
- Transforming the sales force to new competencies and additional external focus on customers
- Marketing operated as a discipline to help create or find customers, not to make a profit
- Stop chasing volume; lose the “worst” customers and develop a service menu
- Make the marriage of “e” to “commerce” work by engaging customers in the process

Note: For more details on the above, see *Facing the Forces of Change- Outlook 2003*, published by the NAW’s Distribution Research and Education Foundation, Washington, D.C.

The rapidly accelerating movement of manufacturing to Asia, especially China, could affect the global outlook of both manufacturers and large distributors who may be setting up operations at great distances from their home base. Estimates say that at the end of 2003, China will become the fourth largest trading nation in the world behind the United States, Japan and Germany. This may mean that in addition to importing some materials from China, many in our global plastics shapes industry may find themselves selling to China from local facilities. Do you now or will you soon have a branch in Shanghai?

Some important distribution industry Q3 indices:

1. Power Transmission Distributor Sales – up 3.9% vs previous 1.5% decrease
2. Machine Tool Consumption – down slightly
3. Productivity – up 5.1% vs previous 1.7% increase
4. Durable Goods Orders – down 1.4% vs previous 1.7% increase
5. New Orders Index (ISMA) – up 6% vs previous 5.7% increase

Are you practicing Demand Innovation? ... a handful of companies are uncovering and serving new customer needs in the spaces surrounding the product. To implement this basic business approach to jump-starting new growth, even in our somewhat mature industry, business leaders need to ask a new set of questions: What can I do to help improve my customers’ profitability? How can I reduce their costs, shorten their cycle times, improve their differentiation, or boost their sales? The advantage in 2003 will go to the incumbent supplier who answers these needs.

Growth is available in ten top industries, ranked by end-user consumption of OEM Industrial Products, including nine plastics categories (out of 66). Based on 2001 data compiled by Industrial Market Information, Minneapolis, MN, the SIC codes that should be targets for our industry are: 4813, 4911, 3571, 3714, 3577, 3661, 3711, 3812, 3663 and 3531. Which industries is your sales force calling on today?

PRICING: Overall the trend seems to be steady prices, with some exceptions as noted, due to the balance of supply and demand; however, a surge in defense spending due to wartime conditions could alter this current matrix. PS, PE, PP, ABS and PC resins are all up fractionally in 1Q 2003 and a wartime economy and continuing oil price rises could continue this march upwards. MMA sheet seems destined for another increase accompanied by PC sheet within the next few months.

With metals commodities prices such as steel and copper surging, renewed opportunities abound for metal replacement applications, providing plastic shapes prices are held in check.

Meanwhile in Europe, similar price movements abound although PVC and PET are marginally lower, reflecting over-supply, especially Asian over capacity.

MERGERS, ACQUISITIONS, ALLIANCES AND EXPANSIONS: AIN Plastics adds plastics inventory in Grand Rapids, MI and Brownsburg, IN facilities, operated by Copper and Brass Sales, another ThyssenKrupp unit. With GE Polymershapes opening within GE Supply facilities, a trend of integration of multi-line distribution appears to be developing.

Teijin Chemicals Ltd plans to establish PC resin production in Zhejiang Province, China.

BP names Biesterfeld Plastic Europe as its sole European distributor for PS, PP, and PE resins.

Kuraray of Japan plans to double capacity of MMA resins to 40,000 m.t. at its Nakajo plant.

PTM Engineering Plastics, a jv of Polyplastics Tokyo, Mitsubishi Gas Chemical, Korea Engineering Plastics and Ticona, will build a 60,000 m.t. acetal plant in China – completing in 2005, in order to supply the 100,000 m.t. current market estimates.

Rhodia SA of France to expand its Engineering Plastics capacity in N. America, especially in nylon. With a Canadian plant on stream, adding capacity in US and/or Mexico is planned.

Global Polymers Inc. begins operation in CA, with market basket of products aimed at distributors (www.globalpolymersinc.com).

PEOPLE: Laird Plastics announces many personnel changes: John Ritorto becomes VP Business Development and National Accounts, replacing Ramsey Griffin. Ritorto comes from the Industrial Chemicals business. Also at Laird, Jerry Burnett appointed VP Purchasing & Logistics.

New Branch Managers at Laird are: Ron Uber, Chicago (Elmhurst); Dan Vegin, Minneapolis, John Raynor, Charlotte. Roger Plizca is District Manager in OH, Western PA and MD. Mike Johnson joins Laird as General Manager, Western Operations, headquartered in Los Angeles, CA.

Westlake Plastics appoints Jim Johnston Director of Sales. (see interview with Joe Long, COO of Westlake on page 4).

Eastman Chemical names James P. Rogers, President of its Eastman Division (representing 58% of Eastman Chemical's sales, including specialty polymers). Dr. Gregory Nelson appointed Sr. VP and Chief Technology Officer of Eastman Chemical Company.

AIN Plastics adds Dirk Dijkstra as General Manager, Northeast Region, headquartered in Mt. Vernon, NY, reporting to Mark McCord, President. Dijkstra joins AIN from Van Leeuwen Pipe and Tube, a Netherlands based distributor of pipe and tube products and has an MBA from the University of Oregon. Also at ThyssenKrupp, Falk Majert replaces Uwe Wittenberg as General Manager, Thyssen Schulte in Germany. Scott Telesz named General Manager, GE Polymershapes Americas. He reports directly to Yoshaiki Fujimori, CEO, GE Plastics. Telesz was most recently was General Manager of Supply Chain Management, GE Supply (see prior announcement of GEPS openings within GE Supply), and has an MBA from Harvard and B.S. in Electrical Engineering from Duke University.

Martin Huber succeeds Robert Jaker as Chairman of Georg Fischer, with Kurt Stirnemann becoming CEO, following Huber.

Exatec LLC, the jv between GE Plastics and Bayer Polymers AG, appoints Clemens Kaiser President and CEO, with John Fitzgerald assuming the COO position.

Note: Due to the plethora of people announcements, Distributor/Manufacturer Briefs returns in the February 2003 issue.

INDUSTRY INTERVIEWS: Joe Long, COO, Westlake Plastics. Joe, 54, joined Westlake in 1997 as CFO. Prior assignments were in finance and accounting at the CFO level. A graduate of Widener University, Chester, PA with accounting and MBA degrees, he resides in the Media, PA area with his wife, two children and four grandchildren close by. We interviewed Joe by phone and e-mail at his office in Lenni, PA.

Q. How's business been this past year? What's the outlook for 2003?

From a macro view, we, like everyone else, experienced an overall decline in business during the past year. At the micro level of our individual business units, each performed in line with their respective market conditions. We can see some signs that things are firming, but I'm uncomfortable in predicting any sustained recovery with all the uncertainty surrounding international events. Overall, my best guess right now is that 2003 will be a slightly down year with the first half being down and the second half being flat. I think the real turnaround will be a 2004 event.

Q. Westlake has recently announced a management change and a restructuring initiative. Could you bring us up to date on plans for 2003?

I'm not sure I would describe what we've done as a restructuring initiative. It's my view that over the past few years, we fell into a "me, too" mindset. Essentially, what we're doing and what we will continue to do in 2003 and beyond is to get back to those things that made Westlake Plastics a leader in the industry. It may sound like a cliché, but I believe Westlake Plastics' greatness is its ability to deliver the best quality product at the most competitive price with the highest level of service.

Q. There have been persistent questions as to the financial strength of Westlake. Can you comment on that?

Thank you for being so polite by referring to the "persistent questions" surrounding Westlake Plastics. Having been CFO for the past five years probably has sheltered me; because it's only since I've been appointed COO that I've heard any of what I can only describe as "wild rumors". The reality is completely opposite the perception. The lessons of the 80's and 90's have been learned: that the key to financial success is the ability to effectively (i.e., profitably) manage assets, the most important being cash. Consequently, nobody wants to carry receivables and inventory but, at the same time, everybody wants to extend supplier payment terms. The results are an aggressive approach to collecting customer payments, a just-in-time inventory management system and supplier payments being stretched beyond terms. The reality is we're now more in line with how the supply chain is managed. But because this is so different than how we've done it in the past, it was easier for some to perceive problems.

Q. What's your career with Westlake been like?

In a word, great. I've learned so much and have had an opportunity to work with such terrific people that it would be hard to describe my time here as anything less.

...to be continued in the February 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.

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