Mel Ettenson's GLOBAL PLASTICS LETTER

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"A World of Plastics Information"

AUGUST 2006

Dear Colleague:

Tentative turmoil taking toll…compounding some global economic softening is the Middle East conflict, which threatens to add uncertainty about oil and natural gas availability, to roiling capital markets and rising interest rates. Recession remains restive but possible, unless we are entering a stagflation period in our business cycle …we will know that by the end of 3Q or beginning of 4Q, historically the nadir of our industry's revenue reporting.

China will let the yuan rise by another 3-5% by the end of the year; primarily to slow down its booming economy before it overheats and possibly collapses —raising the value of the yuan helps cool export growth. This augers well for domestic sheet producers since limiting sheet exports has traditionally dampened domestic manufacturing growth.

Steel prices will rise in August and stay high well into next year, once again opening up markets to applications for plastics to replace traditional metals – the usual caveat remains in that polymer price rises do not shadow metals. Business spending (the real harbinger of future growth) should be growing faster than this year's 8.5% rate, since plant and equipment utilization is running at a strong 81.7%, just slightly below the peaks of the late 1990's. Worries about a big slowdown are putting a damper on expansion plans…unfortunately it may be a case of self-fulfilling prophecy.

Middle East conflict …which hovers over all planning, and incidentally a repeat of the 1973 crisis, will bring new highs for energy prices as crude oil will spike around $90/bbl and may go to $100 – it was just last year that we speculated about what would happen if oil went higher than **$50/bbl!!** This all affects the economic outlook for our corner of the global plastics industry.

With all this uncertainty, which adds to the possibility of a slowing of a 1-2 year cycle of growth for most of us, perhaps we should plan for a "soft landing" in 2007. Bottom line…trust but verify!
Check out what your customers are saying about your products and services by monitoring the Blog world (BlogPulse or Technorati)…another new technology that started with TWX and morphed to Fax, EDI, Email, Internet, Instant and Text Messaging – all within the span of 30 years, when the transition from postal mail to Fax took over 250 years!
Some economic forecasts: GDP growth slowing to 2.5% in 2007; Prime interest rate at 8,25-8.5% by year end; Inflation at 3.4% in 2007; and Crude oil at $90/bbl by years end.

TRENDS: Business logistics providers, such as shipping, warehousing, inventory management etc, will enjoy robust growth – 10-15% a year for several years. Already a US$1.2 trillion expense for businesses, it is driven by a combination of rising fuel prices as well as longer supply chains and bigger inventories stemming from outsourcing as well as higher interest rates inflating carrying costs on inventories. May change tactical plans for manufacturers in our industry.

While in-print catalogs have gone the way of the dinosaurs in our industry, due in most part, to the postings on internet sites, comes the announcement that W.W. Grainger is planning to double its catalog size by 2008. Already the largest industrial distributor (including some plastic items) by sales… US$ 5.5 billion, Grainger is adding 39,000 new products bringing its 2007 offerings to almost 150,000 products. It seems that to differentiate is sometimes to go back to the future – although one stop shopping is continuing to be a cost-effective approach to the customer.

Distributor-Manufacturer relations are an age-old debate and frustration for all parties. Now there are some insights and trends in the form of a new publication available from the NAW titled *Working at Cross Purposes: How Distributors and Manufacturers Can Manage Conflict Successfully (www.naw.org/cross)*. We urge our readers to examine the results of interviews with many real world parties to terminations and what was learned…this is not theory but experience!
Another source of conflict is the Distribution Agreement which has been scrutinized lately and improved considerably…it needs to include some basic clauses such as:

- Termination and renewal
- Termination for cause and convenience
- Limiting numbers of new agreements
- Exclusivity or not
- Comparison with other industry agreements

With IAPD's 50th Anniversary coming up in September, and hailed at its annual convention in Vancouver, we recently came across a listing of "Significant Developments in Polymers after 1930". Some sample milestones: nylon – 1938; PMMA commercial synthesis – 1933; HDPE – 1957 and PC commercially – 1959. For a complete chronological listing, email us at: mel@globalplasticsletter.com, include your fax number and we will send along to you.

Society of Plastics Industry (SPI) introduces NPE 365 which is a powerful, new internet based personalized, two-way search "agent" that filters and produces customized results for the plastics industry. It also alerts the user on a regular schedule whenever new information is available for the topic of interest to that user only. For more details go to: www.plasticsindustry.org.

PRICING: This month, rather than report on specific price moves (mostly up as usual), we thought we would pause and offer excerpts from a very incisive report available from IDES (see www.ides.com) written by its founder, Mike Kmetz. Some highlights are:

- Oil and natural gas remain significant drivers of plastic resin prices
- Global consumption of oil now exceeds production and grows at 2% per year, while production declines 8% per year
- Today the world consumes 85 million barrels per day (42 gallons in a barrel)
- Just over 4% of a barrel of oil goes into feedstocks that are used to make plastics

Bottom Line … continuing upward pressure on plastics prices into the next decade – only ameliorated by the progress made by bio-resins (renewable) sources.

DISTRIBUTOR/MANUFACTURER BRIEFS: GE Plastics announces Lexan DMX – said to provide scratch resistant properties without a coating.–Gehr Plastics appoints Piedmont-Regal and Boedeker as newly authorized distributors.

Sheffield Plastics provides Makrolon PC sheet to Clear View Manufacturing to be used as hurricane shutters in the U.S. Southern Coastal region and approved for use by the states of Florida and Texas, as well as the U.S. Consumer Product Safety Commission.

Degussa and Special Chem introduce web-based inspiration platform for creating virtual interiors and visualizing Plexiglas and light interaction.

Cincinatti Extrusion GmbH of Austria has developed a special extrusion line concept to manufacture foamed PVC for the production of trim boards – have sold 10 lines globally with four going to the U.S., including Vycom, which markets under the Azek name. Replaces wood as borders around windows and doors and wall paneling. Capacity in U.S. for foam PVC sheet is said to be 120,000 tons annually.

CYRO's Acrylite Resist acrylic sheet being increasingly used in P-O-P displays, because of its higher impact, yet superior clarity properties – offering greater durability.

Piper Plastics machines Victrex's PEEK, ceramic filled, for use as test sockets for mircroprocessors. Separately, PEEK film used for microphone spacer in mobile phones.

Ticona combines LCP with PPS for unique properties with applications into the electrical and electronic industries – said to be among the first alloys in the HPM sector of materials.

ZL Engineering Plastics appoints Foust Marketing as Manufacturer Reps and opens new warehouse in Kansas (U.S.) – all to serve the Midwest and Southwest markets.

Ensinger/Penn Fibre now stocking Ultem 1000 sheets in gauges from .040-.125, 24 x 48.

Modern Plastics, CT, President Bing Carbone has his inquiry answered by Jack Welch and published in July 24, 2006 issue of Business Week – in the Welchway column.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Rexel Group acquires GE Supply(GESCO) for $725 million, doubling its size to $5 billion in the global electrical distribution market – GESCO said to be at $2.25 billion in sales, with 2500 employees and 150 branches – continues the massive consolidation in distribution.

Ferguson continues it's acquisition strategy by buying SNCG – has bought 4 companies this year to date, all in the plumbing and lighting industry groups.

Charlotte Pipe agrees to buy Standard Pipe Co., a $25 million ABS pipe maker.

Trelleborg of Sweden in pact to acquire Kawneer Rubber and Plastics, further consolidating the profile extrusion business serving construction and transportation industries.

ThyssenKrupp Budd Company sells plastics operations to Continental Structural Plastics – products are primarily SMC sheet product for automotive industry and represents restructuring with regards to lowering priorities with plastics.

Mulford Pte Limited, Hong Kong is formed as an 80:20 jv with Mr. Jimmy Yeung of King Pacific Industrial Limited, Hong Kong - will be the active holding company for the plastic sheet and film distribution business units in Hong Kong, China and Taiwan.

OUTLOOK ASIA: by Mal Binnie, our embedded correspondent in the Pacific Rim, reporting from Australia. If any of our readers are visiting Sydney Australia on 31st August and would like to join a lunch for the Plastics Pioneers let Mal Binnie know at maljbinnie@hotmail.com. The final lunch for 2006 is on Thursday 30 November.

Phil Harry, Chairman, Mulford Plastics, has received many awards in his career but during June was given an Australian Honour for his services to Sport, particularly to Rugby. Congratulations Phil.

The 125 Chinese companies that participated at 2006 NPE demonstrated that the plastics industry in China continues to grow at a rapid pace. There are many reports from China of companies growing their profit by more than 12%. Capacity is being expanded by the major multinationals in partnership with local firms. Chinese firms are also boosting capacity some by more than 300%.

It has been reported that Marubeni America Corp has purchased a 15% stake in VTec Technologies LLC a rapidly expanding manufacturer of plastic mirrors for the automotive industry.
Plastic bag manufacturers are again under attack as Hong Kong is considering a tax on retailers and a levy on manufacture. Whilst in Victoria, Australia free plastic shopping bags will be banned under legislation expected to become law in 2008.
Xinda aims to be the first Chinese Plastics company to list on the NYSE outside of China and Hong Kong…Xinda High Science and Technology attended NPE 2006.

INDUSTRY INTERVIEWS: Rainer Schorr, Senior V.P., and Head of Polycarbonate Business Unit, N.A., Bayer MaterialScience LLC. Rainer, who joined Bayer in 1986, has held positions globally with Bayer and has his office BMS headquarters in Pittsburgh, PA. He holds an MBA from University of Erlangen, Germany and is fluent in five languages. We interviewed Rainer at the Bayer booth at NPE 2006 in Chicago.

Q. What new developments in PC extrusion grade resin will you be introducing?
A. The extrusion market is showing extraordinary growth and some of the new PC products are for the architectural and mass transport markets. Products such as Bayblend FR 3030 as well as Makrolon PC blended with ABS will meet the demands of these new applications in growing markets.

Q. What are the property trends…i.e, higher heat resistance, greater transparency etc?
A. Not so much with resin, but substitution for metals by the use of engineering plastics makes for easier handling. Metals replacement, especially steel, will see more use of plastic-metal hybrids in the auto industry. Such applications behind the dash and grill add stability and additional properties and lighter weight advantages – not simply replacing metals but improving on their properties by using these hybrid materials .

Q. What new PC sheet products are in store for the market in the balance of this decade?
A. You should talk to Dennis Duff and/or Kurt Glaser for more details on this but I can tell you that our focus will be on the technology of the surface of sheet – using enhancements such as coatings, laminates, colors and special effects

Q. What about film?
A. There are many applications in the I.T. industry using "intelligent surfaces", enhanced by additives and coatings such as our "Fantasia" and color effects utilizing dyeing techniques or physical methods – all to change the optical look of the film. Again, Dennis and Kurt can provide details about specific products.

Q. Does PETG still gain market share against PC?
A. Straight PETG is not a true competitive product but Sheffield believes that Eastman is working on an alloy to have the best properties of both PC and PETG

…to be continued in the September 2006 issue

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