



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

AUGUST 2007

Dear Colleague:

Zenith or zoom zealots? ...our industry may be at the crossroads of this extended recovery with inflation steadying yet new orders flattening. Overall the economic outlook, according to “experts”, is mixed as we reach summer’s midpoint in the Northern hemisphere.

Consensus among economists is for slowing GDP (to 2 %) in the second half of 2007, edging up to 3% for the year 2008. Combined with the current trend of growing inflation (single digits), but easing to 2.5% in early '08, and crude oil reverting back to \$60/bbl later this year, guarded optimism for next year seems prudent and prescient. Interest rates are forecast to be trending upward gradually into next year – not a deal breaker for most expansion plans by businesses.

Opportunities are growing for those doing business in Canada and Mexico – in Canada the CDN dollar is up 50% against the USD and demand for goods is high. In Mexico the new administration’s friendliness to business as well as its competence is opening the door to foreign investment – tax reforms will help. Exporting in the U.S. is done primarily by small to medium size businesses with Export Assistance Centers and World Trade Centers available to help with many foreign country requirements other than Canada and Mexico – see www.uschamber.com.

Shipping problems similar to those in 2004 and 2005 await as worker shortages in 2008 will affect sea, air and trucking firms as well as rail shipments. Also new background checks for employees of many shipping firms go into effect next year, compounding the delays – consider locking in rates now through long-term shipping contracts where available. One bright spot – ocean shippers can look forward to more pricing power since antitrust immunity for freight companies on Atlantic Ocean routes will end in Oct. 2008...could trim 2% from annual rate hikes. Use brokers and pool orders to get the best rates.

Count on rising costs for software maintenance contracts – plan on paying 5-7% more for upgrades, patches and service...one option is to buy software hosted on the Internet versus your computer such as that from NetSuite and Salesforce.com. Results from *Industrial Distribution’s 61st Annual Survey of Distributor Operations* indicate that less than 10% of all sales came from the Internet and that selling products on a distributor’s website is only slightly important. The Internet is a long-term marketing opportunity not a short-term selling opportunity and is primarily an informational tool, according to the majority of those surveyed. The Internet should have increased sales but that never happened. For a complete look at this important research, go to: www.inddist.com.

TRENDS: Some trends in distribution are: use of technology to grow their business; selling private labeled products and expanding internationally. Meanwhile Mergers and Acquisition activity in our industry are being sustained at record levels with no end in sight, due in great part to low interest rates that are fueling and financing this long-term trend.

Manufacturing activity (PMI Index) has continued to expand in 2Q, after a weak first quarter with Plastics and Rubber Products leading the way – new orders increased while inventories went down...all positive trends for our manufacturing sector which has been operating at almost full capacity. New investment in plants is yet to come and the effect on the supply-demand curve will be felt at the end of this decade. Many forecasters are calling for a recession in 2009-2010 but its obviously too early to call.

Guangdong province in China still leads China's plastics industry in production, especially with plastic pipe – the outlook is for billions of pounds of polyolefins to be produced this year with investment in new capacity at the billions of Yuan level for the balance of this decade.

Strong polymer demand for thermoplastics in Russia opens new opportunities for foreign investment – reached 3.3 million tons in 2006, led by PVC for pipe.

Look for hollow multi-wall carbon nanotube technology as conductive fillers for many shapes including PC - being led by LNP/GE and Arkema – this should begin to result in some new products for our industry by 2010-2012.

The previously reported SABIC buy out of GE Plastics has received much reporting and analysis and now comes a study by Business Answers International (www.baintl.com) that analyzes the potential impact on many factors in our plastic shapes industry – it is a multi-client study which includes independent theories garnered from interviews with many senior management people regarding the future operations of GE Specialty Film and Sheet and GE Polymershapes.

Breaking News: GE Plastics has been renamed by its new owner...to be known as **Sabic Innovative Plastics** effective September 2007. Brian Gladden will be President and CEO.

Any name change announcement for GE Polymershapes is still pending.

We recommend a look at *Kiplinger's Biofuels Market Alert* as a way of keeping up with trends in the newest environmentally technological breakthroughs for new materials.

OUTLOOK ASIA by Mal Binnie and OUTLOOK EUROPE by John Douglas will not appear this month but will return in September when our special correspondents return from holiday.

PVF PERSPECTIVES BY David Chasis, special correspondent for PVF

Why PVC Piping Systems? Part 2.

Another benefit of PVC is that it has one of the highest strength-to-weight ratios of any commonly used plastic piping materials. This feature allows PVC to have a lesser pipe wall thickness to maintain a designed working pressure compared to other materials. It's high modulus of elasticity and low coefficient of thermal expansion minimize expansion and contraction requiring reduced piping offsets, loops and expansion joints. Many leak-proof joining techniques, especially solvent cementing, are another unique advantage of PVC.

JM Eagle is closing two of its recently acquired pipe plants in the U.S. and curtailing production at another two – these were owned by PW Eagle, which J-M Manufacturing bought earlier this year to create the newly named company. They will now have 23 plants with annual sales in excess of \$2 billion. Crane Group Ltd acquired KBE Ltd in Australia, a producer of PE Pipe and Fittings, to be added to Crane's Iplex Pipelines business, for large bore PE pipe. Basell targets China for its PP pipe market growth; expected to grow to 3.61 billion feet by 2010.

PRICING: PP resin prices have dropped in the last 30 days while PE of all types are on the way up again, as are PVC and PS. Other mid-summer price hikes include PET and PBT, nylon 6 and 6/6, and thermoset polyesters. Even LCP's such as Vectra were increased in Europe by Ticona effective August 1. Some good news is that benzene delivery times have eased somewhat, although crude oil prices are peaking before their expected fall, assuming no natural or man-made disruptions.

MANUFACTURER/DISTRIBUTOR BRIEFS: Victrex launches Aptiv® film based on PEEK polymer – high performance films said to compete with PC and others.

Sheets of Tiglaze copolyester approved for skylight use —Eastman resin extruded by Spartech.

Separately, Victrex plc opens new applied technology center in the UK.

Inline Fiberglass Ltd., Toronto, Canada, innovates by offering PU Pultrusion Process for window lineals as well as other applications...adds to their long standing in FRP pultrusion.

Bayer Material Science announces some new products at the Moscow Khimia 2007 trade fair – includes Makrolon® PC one-piece car roof dome; and multi-wall and monolithic sheet for sports stadium roofing including the Olympic stadiums in China for the 2008 Olympic Games.

Also Makrolon film is being used for the flip-digit displays at train stations in Switzerland.

Degussa will feature a comprehensive range of products at K 2007 in October...included will be new nylon 12 resins, PPSU for helmet visors, scratch resistant Plexiglas® and Acrylite® multi-skin sheet and resins.

Also at K 2007, Quadrant will unveil new products including Flourosint® and PTFE strips bonded to a variety of substrates as well as a new polyimide semi-finished product group, and new modified UHMW products. Incidentally Quadrant is currently reporting annual revenue of CHF 800 million, with 2400 employees in 18 countries.

Eastman Chemical launches eZone design portal for store fixture and P.O.P. creative professionals at www.innovationlab.eastman.com – features Spectar® copolyester sheet.

Gehr Plastics celebrates its 75th anniversary in Germany with global turnout of 600 who attended its symposium event, featuring guest speaker Dr. Helmut Kohl, former German Chancellor - announces its largest acetal copolymer (500mm) 19 3/4” rod.

Dow Chemical announced it has signed an agreement with ethanol producer Crystalsev of Brazil to produce LLDPE from sugar cane...a 350,000 mton/yr plant to go on stream in 2011.

Victrex offers PEEK films trademarked as Aptiv – high strength and high heat resistance are features...to compete with PEI, polyimide, flouropolymers, PET and PEN.

Xiamen Acrylic Co. Ltd., Chinese sheet manufacturer offers MMA and PC sheets in new markets.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Breaking news... Plaskolite buys selected plant facilities of Lucite International in North America and Mexico – produce extruded MMA sheet. This will double Plaskolite’s capacity and add 40% more personnel, both plant and marketing...their output is now 95% acrylic. Thus privately owned Plaskolite becomes the #1 producer of continuously manufactured acrylic sheet with Arkema, CYRO Industries, Southern Plastics (Filtrona) and Spartech following in that order. Plaskolite’s 2005 sales had been reported as approximately \$161 million. No polymer facilities were included and the Lucite trade name remains with Lucite International who continue to run continuous cast production lines. Will that be sold to someone like Mitsubishi or Aristech eventually or will they continue to serve the sanitary ware market themselves?

Total Plastics, subsidiary of A.M. Castle & Co. buys Rhode Island Plastics, a 10,000 sq. ft. facility and now has 15 branches, totaling 380,000 sq. ft., supporting annual sales of \$115 million (2006) - a 7% growth over previous year. Gary Chapman is Manager. Total opened Knoxville, TN branch earlier this year.

HT Troplast AG, PVC sheet and profile producer in Germany has been put up for sale by its private equity owner, Carlyle Group...includes Kommerling foam PVC sheet business.

Speaking of private equity firms, M&A’s, completed by private equity firms in the plastics industry have doubled since 2002...most are international deals.

Two major distributors of industrial and oilfield PFV products, McJunkin Corp and Red Man Pipe and Supply Co. have merged...resulting company has over \$3 billion in annual sales.

BASF AG has received a possible offer from a potential buyer of its EU3.2 billion styrenics business – said to be someone in the business as opposed to a private equity buyer.

Lanxess and DuPont expand their jv in Europe, known as DuBay Polymer GmbH.

New PMMA plant owned by the jv of Degussa and Forhouse goes onstream in Taiwan.

Eastman Chemical expands capacity of cellulose triacetate film...used to produce polarized films.

Ryerson bought by private investor Platinum Equity for \$2 billion - divested plastics in 2006.

Ticona moves its world's largest acetal resin plant to Frankfort-Hochst area in Germany.

Crain Communications, parent of *Plastics News* buys publisher of *Plastics & Rubber Weekly* and *European Plastics News*, forming largest plastics industry publisher on a global basis.

Technology enabling the production of foamed PET by Mossi & Ghisolfi Group has been sold to Alcan Airex...new foamed sheet products and applications could happen as soon as next year.

PEOPLE: Spartech CEO George Abd has resigned for personal reasons – CFO Randy Martin named interim CEO until successor is found. Charlene Begley, former CEO, GE Plastics, has been named President and CEO of GE Enterprise Solutions, a new business starting with revenue of \$11.5 billion. Cope Plastics announced several promotions: John Schwenck, to Market Manager, Engineered Materials; Lindsay Gilreath, Corporate Sales, Machine Shops and UHMW sales; Mark Boeck, Manager of Profit Maximization; Jim Carroll, Regional Manager; Mike Bonin, Regional Manager and Dianna Hammon, Graphics and Signage Sales Group Manager.

DuPont Engineering Polymers named Bjorn Hedlund as Global Marketing Director.

Martino Marketing announces the addition of Philip Walker to its sales team, covering S.E. U.S.

Gary King re-joins Westlake Plastics as Director of Sales and Marketing.

INDUSTRY INTERVIEWS: ...concluding our interview with Dick Garthwaite, Executive Vice President, Business Answers International.

Q. Why don't some M&A's work? Why are some successful and why aren't there more of those?

A. *I think the main things that people overlook in the acquisition process are the cultures of the companies involved. The numbers have to be right of course, but how the people in the two organizations adapt or don't adapt to each other and new systems will have a lot more to say about success in the long run than anything else. It is especially important to understand if the company you are acquiring has the structure in place to keep the knowledge intact and not have the true value of what you bought disappear if a few key people leave.*

Q. On a personal note, ...if you could choose someone living or dead, to have lunch with today, who would it be and what would you ask them?

A. *I guess it would be Neil Armstrong and to have the opportunity to talk about what it felt like to be the first representative of humankind to set foot on a place other than earth.*

Q. Name a talent you wish you had?

A. *I would really like to be a tournament level tennis player!*

Q. What do you consider your greatest accomplishment?

A. *I have had the opportunity to be involved in four companies in my career that were better, more successful places when I left than they were when I came. But I guess I would consider my greatest accomplishment is being involved in a wonderful marriage to my wife Cindy and being involved in raising four kids that are turning out to be pretty exceptional members of our society – what more could you ask for?*

Q. What advice would you give someone entering our industry today?

A. *I think the most important thing in entering any industry is to spend the time needed early in your career to really understand its dynamics. Tday I feel that people expect to move too fast in their careers and down the road that will turn around and bite them and prevent them from attaining real success.*

Thank you

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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