Mel Ettenson's GLOBAL PLASTICS LETTER
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"A World of Plastics Information"

JANUARY 2010

Dear Colleague:

Decade delivers development…as the second decade of the 21st century dawns, we see several signs of exciting growth for our industry. As global governments infuse their economies with much needed liquidity, new capital is being dedicated to research, development and badly needed new products. This spurs new applications and resumption of growth for plastic shapes in appropriately related markets and products… we see results of this below in our *Manufacturer/Distributor Briefs* section.

As for the overall economy in most global sectors, most economists are predicting a "choppy" recovery… which means growth in fits and starts and very selective – a 3% GDP growth seems in store for 1Q 2010. A lag in between ending of the recession and job growth seems certain as growth is driven in large part by government support as we've stated. New orders for U.S. manufacturers are being lifted by exports…helped by the weak dollar and growth in overseas economies. The most accurate of U.S forecasters however is expecting a 5% expansion in 2010, with dwindling inventories and growing demand driving growth…we shall see. Meanwhile the wholesale distribution industry, especially chemicals and plastics should rebound best and earliest, taking advantage of the weak dollar. A usually accurate forecaster explains this recovery is because these distributors sell to exporters, are exporters, or are serving customers who will find some protection from foreign competitors because of the weak dollar.

Skyrocketing demand for online software applications, known as "cloud computing", allows small and midsize firms to save on IT operations and maintenance by using online inventory management. This field is growing 30% per year and merits a look because companies pay a monthly fee of a couple of hundred dollars for short term contracts…benefits "smalls" and allows them to compete with their much larger competitors – again technology aids productivity and launches a new age in company operations. Remember when IBM's CEO (called chairman in those days) predicted in the 1950's that the market for computers was limited to a number that could be counted with the fingers of his two hands!

TRENDS: Crude oil recently traded near a five-week high ($78.83/barrel) on signs that the global economy is recovering from the worst recession since World War II. Most forecasts are for prices to remain at the $70-$80 level for most of this year…do today's rising oil prices mean that we're doomed? Not necessarily. To begin with, between 2001 and 2006, the price of oil tripled, and yet the economy suffered little…inflation was stable and economic growth reasonably strong. Oil prices are now where they were for most of 2006. There is a direct correlation between consumer confidence and oil prices…especially as they translate into gasoline prices. We must now sort out the oil price trend and discount it as it affects our industry. Inflation in plastics prices is stable now and will remain so for the remainder of 2010 so our industry should resume its real growth! We expect tepid growth but no double dip in recessions – a 3% gain in GDP in most developed nations. Exports are rising in most economies prompting restocking of inventories…a key factor in recovery. Business spending will be at lower levels, tempering the recovery.

OUTLOOK ASIA: **… by Mal Binnie, our Pacific Rim correspondent located in Australia**
As we enter 2010 and with the Chinese New Year of the Tiger fast approaching, activity throughout the region has been limited, but all countries are gearing up for recovery in sales and profits this year. The Australian market is well on the path to full recovery and Q1 should reflect mining and manufacturing industry growth. We are advised that at least 3 of the major plastics distributors are searching to increase their sales staff. An interview with Arnold Mouw, COO of Mulford International, is contained later in this Newsletter. Sabic Innovative Plastics has reported adding two new extrusion lines for specialty film and sheet at its Vadodara India plant. The plant will manufacture 2-sided UV protected sheet, sign grade sheet, corrugated sheet and specialty opaque grades. An interesting article on "weathering of plastics" authored by Dr SS Verna Asst Professor, Sant Longowal Institute. Of Eng and Technology was published in the December issue of Popular Plastics and Technology. Bayer Material Science has entered into an agreement with Malibu Plastics Ahmedabad to set up a JV to supply PC sheets to the Indian market. The JV to be named Bayer Malibu Polymers Pte Ltd will provide solutions for industry segments such as building and construction, industrial, signage and mass transportation. Products will include solid, multi-wall and corrugated sheets. These expansions of Sabic and Bayer illustrate the growth in the Indian market. MPlas held in Kuala Lumpur Malaysia reported strong attendance from both local and overseas visitors and exhibitors. The Malaysian economy is continuing its solid recovery trend and with the new Special Economic Zone in the East Coast Economic Region (ECER) providing a 10 year tax-free status investment is expected from many plastics companies. In 2010 Japan is launching a new plastics show targeting markets such as medical, packaging, solar batteries and autos. The NPlas show is scheduled for May 19-21 in Tokyo. Teijin Chemicals Tokyo has created a new business unit to expand its Panlite PC sales into the auto market.Mitsubishi Plastics launched its new photovoltaic back sheet in late December and claims it is the worlds best barrier against water vapour of its kind. Applications include solar cells, semiconductor chips, electronic papers and medical products. It is reported that the offer of Mitsubishi Chemiacl to acquire Mitsubishi Rayon will be launched in February 2010. China is looking forward to a return to growth in 2010 and if any company wants assistance in this market as well as Japan contact Sig Floyd at sigfloyd1@aol.com or check his website www.valushar.com. Signs are clear that factories in China are rehiring as also is Hong Kong. The official report on the enforcement of Labour Union Law highlighted the need to encourage and regulate employee representative councils (ERC) in private companies. Dispute resolution continues to be central to future policy. Statistics show Chinese plastics processing industries averaged 5.7% profit in 2008 but last year may be reduced. Mulford's appears to be leading a recovey (see Industry Interviews below).

OUTLOOK NORTH AMERICA: **…by Bill Shields, our special correspondent in the U.S.**
For twelve months in a row, businesses have continued to reduce inventories. The U.S. Trade Deficit increased in October. The U.S. Dollar continues to fall. U.S. industrial production is still growing back. U.S. productivity increased in the 4th Qtr while labor costs decreased. Initial claims for unemployment continue to rise even though the economy seems to be on the mend. Worldwide semiconductor sales are up 8.5% to $22.6 billion

compared to a year ago. This is the first year over year increase since September 2008. Canada's recovery is still steady but slow. Their unemployment rate is now 8.6%. Mexico's economy continues to be sluggish but shows some signs of life. The average base salary of CEO's dropped 9.3% to $346,000. This obviously does not include Plastics Industry wages. Crude Oil Prices are climbing upward which will indicate higher prices for commodity plastics resins in the near future. Expect price increases before the end of the 1st Qtr for HDPE, PP and PVC. The U.S. Plastics Industry continues to regain the sales we all lost over the past year. The December sales were much stronger than expected. The International Monetary Fund expects the U.S. economy will grow by as much as 1.5% in 2010. Semiconductor sales are expected to rise by as much as 12% in 2010 and by as much as 9% in 2011. Reading, PA based Quadrant EPP announced a 7% price increase for their Symalit® PVDF and Symalit® ECTFE sheet products effective 01/18/2010.

PRICING: Pricing for the start of 2010 reflects some selective increases such as Palram's 6% increase on all PC sheet products effective 1/4/10. Resins in flux at this point continue to be in the polyolefin family, while PVC pricing moves seem to be dependent on the recovery in construction markets. Plastics price expectations index indicates buyers are preparing for hikes in most major commodity resin costs (Source: www.purchasing.com).

MANUFACTURER/DISTRIBUTOR BRIEFS: Cincinnati Extrusion has developed a production line to make PP-R pipe, using 2 outer layers of PP copolymer and a middle layer of GF PP homopolymer. DuPont develops an iPhone app for designers to use for Corian® cast acrylic color samples. Composite Advantage LLC has an FRP deck used in bridge construction…is sandwich construction. Victrex supplies APTIV PEEK® film for use in high performance tapes as protective tabs for cylinder lithium batteries. Bayer MaterialScience introduces clear PC FR resin for demanding electrical applications…Markrolon® FR7087 now carries UL Plastic Recognition Yellow Card indicating meeting strict UL 94 5VA standards for flame retardancy. Formosa Plastics declares force majeure for PE and PP due to power outages at its Texas, USA plant. Putnam Plastics introduces PEEK and thermoset polyimide extruded tubing for catheter applications. Lucite International introduces LuciteLux product line offering new effects for acrylic sheet, new website www.lucitelux.com tells the story well. Spartech Corp.swings to a profit in 4Q 2009 after serious restructuring…develops Zycryl Plus, an acrylic alloy sheet product for the sign market – also expands its Royalite rigid PVC sheet line. Ensinger's Penn Fiber unit now offers thin gauge sheet in PSU, PPO, PET and nylon…both glass filled and unfilled. Top U.S. film and sheet manufacturers are led by Dupont, Spartech, Primex, SABIC, Plaskolite, Arkema, Evonik CYRO and Sheffield…Bemis leads as usual with packaging film products. Quadrant announces expansion of sizes available for its Nylatron GSM tubular bar products. Eastman Chemical and Indorama Ventures continue to negotiate patent disputes for Integrex PET technology.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:
Alcan Composites (Sintra brand manufacturer), a unit of Alcan Packaging, is bought by Amcor Ltd of Australia…Alcan's parent, Rio Tinto Plc, accepts offer of US $2.03 billion. SABIC Innovative Plastics adds two PC sheet and film lines in Vadodara, India. Also in India, Victrex appoints Padmini Petroplast as its partner for distribution of PEEK resin products.

PEOPLE: Sean Whelan, formally of Evonik, has joined Plastifab Industries as market development manager. Tom Connelly, formerly with Quadrant, joins ZL Engineering Plastics as Sales and Application Development Specialist.

INDUSTRY INTERVIEWS: **by ARNOLD MOUW…COO MULFORD PLASTICS Pty. Ltd**

Arnold was interviewed by Mal Binnie, our Pacific Rim correspondent, at Mulford's Australian Head Office.

Q. How has business been in 2009 versus 2008? What will 2009 year end results be?

A. Like all major businesses around the world it has been a difficult year, certainly Asia and the Pacific has been no different; however we have seen tremendous growth in our Indonesian business driven by local demand and a strong presence as we opened a significant number of new branches. Our New Zealand business has remained strong and there is no doubt we have out-performed the economy. Australia has been a mixed bag but entry into value added activities and Engineering Plastics has softened some of the impact of lower prices and a softer economy. The roller coaster ride of our Australian and New Zealand currencies against the US$ has hampered sales and profit growth as prices have fallen steadily since late 2008. Q3 2008 saw the A$ in the 0.90 to 0.95 cent range and then falling rapidly to 0.60 cents and now in late October 2009 we are back to the 0.92 mark with forecasts of parity. It is always difficult to manage these fluctuations as most of our imported products are traded in USD currency Our Indian operation, currently in its second year, is showing good growth. In Hong Kong we have had to realign our business to domestic consumption as the export of electronics and other consumables market slowed significantly. Considering the overall impact of exports in high end electronic and electrical goods we will have a reasonable result.

Q. How does 2010 look as far as revenues and profits?

A. We are forecasting steady growth in 2010, particularly in Q3 and 4 of 2010. We also expect improved profits as the expense actions taken in 2009 will stay in place to offset any possible reduction in sales and margin. We did learn in 2008/2009 that in order to survive we must be a leaner and more productive organization. Managing cash and NTA in 2009 has been a integral part of our leadership mantra in 2009.

Q. How have the many mergers, acquisitions and alliances in the Pacific Rim generally and Australia specifically changed the dynamics of your market share?

A. We had anticipated more activity in this area, but in most of the countries in which we operate, it has been pretty much status quo relative to our industry. Sabic has recently exited direct resin distribution in Australia, New Zealand ("ANZ") and parts of Asia. There has been significant consolidation in Engineering Plastics distribution over the last two years within ANZ, with Dotmar acquiring 2 or 3 smaller competitors. (It is interesting to note Dotmar's acquisition in the early part of 2008 by the US Blackfriars Group, who own Laird Plastics, Port Plastics and Amari Plastics.) In 2007 Mulford Plastics acquired Ludowici Plastics in New Zealand. We continue to see smaller competitors crop up as manufacturers look for more channels to market and this tends to drive prices lower. Local extruders/manufacturers, such as Bayer MS, are taking a more direct control of their extrusion facilities in Australia, meaning that we are seeing manufacturers looking at ways to possibly bypass distributors.

Q. What is the history of Mulford? What does the ownership matrix look like?

A. Mulford has a very proud history and has been in business for over 64 years and was formed by John Mulford, with the first branch in Sydney, Australia. I think Mulford Plastics is still the oldest IAPD international member. Its ownership to this day remains predominantly privately held, after its acquisition by Haryanto Tjiptodihardjo in 1990, and he has been a very supportive shareholder and owner since that time. Mulford International Pte Ltd, the group holding company, is registered in Singapore and in 2006 Champ Ventures, an equity fund in Australia, took a 26% share.

...to be continued in the February 2010 issue.

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