



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JUNE 2007

Dear Colleague:

Xenophobia exacts extra exceptional efforts ...talk of recession is in the air as summer approaches in the northern hemisphere with an inclination to blame globalization. It would appear, however, that there is a likely downturn revision for 1Q 2007 growth...well below a 1.3% estimate that would put it at the lowest level in four years. Despite slowing economic growth, put at 2% at best, and despite rising energy prices, business-to-business orders remain strong, helped by exports, as economies in Europe and Asia excel and the US Dollar falls. Of course some sectors will do better than others in a sluggish economy. The energy sector will thrive, amid brisk global demand, with petrochemicals and of course plastics being winners this year.

Recovery from a slight dip in economic growth also appears to have occurred and thus the cloudy outlook dominates thinking for the short and medium term. Most company leaders that we have talked to recently seem to be moving at a cautiously optimistic pace with expansion plans intact. Internet sales will keep growing, to about \$260 billion this year and \$300 billion in 2008, accounting for 10% of all U.S. retail sales, with business to business not far behind. Winners in this marketing channel will constantly be upgrading websites and investing in advanced technology to make it easier for customers to browse and buy.

Shipping costs, whether by motor carrier, rail, or ocean cargo continue their incessant upward climb with no relief in sight – expect increases to range from 6-30% this year. Of course the inflationary energy driver is omnipresent and obvious inflationary effects on raw material prices are compounded by the costs of getting to market rising concurrently.

Some U.S. current economic forecasts are:

GDP (Gross Domestic Product) – 2.0-2.5% for the year 2007

Interest rates – ending '07 at 8.25%

Inflation down to just over 2% for the year 2007

Crude Oil – averaging \$60 a barrel at years end

Trade deficit – narrowing to \$761 billion, or 5.6% of GDP

This year marks the 100<sup>th</sup> anniversary of the invention of Bakelite, the quintessential beginning of our plastics industry. In 1907, Leo Baekeland, Belgian-born chemist, mixed phenol and formaldehyde and created the world's first synthetic plastic. In 1870 celluloid, a synthetic material derived from the natural polymer cellulose, set off a plastics manufacturing craze that multiplied with the emergence of Bakelite and its commercial scale resin and molding manufacturing plants.

Welcome to 2007 and enter the Nanoworld where plastics are derived from one-billionth of a meter or 10 atoms long. Imagine what the next 100 years will bring!

TRENDS: Everyone in our industry (and those outside as well) has read much about the purchase of GE Plastics by SABIC...see our summary and analysis in MERGERS, ACQUISITIONS...section below. However some interesting strategic changes have emerged as a result of this momentous acquisition – notably its possible effect on Bayer. The fact that Saudi Basic Industries Corp (SABIC) was willing to pay \$11.6 billion (almost twice sales and 10 times core profits) for GEP suggests rising appetite for basic chemical businesses, especially when downstream chemicals are integrated into the acquirer's business. Thus Bayer's Material Science unit may be in play within the next few years as its parent increasingly transforms itself into more of a healthcare player.

What ever happened to buying groups, captive distribution and disintermediation?... just several years ago the surging trend was supposed to be that industrial supplies, including plastics shapes, would be bought almost exclusively directly over the internet. Now, after weathering these storms, industrial distribution is stronger than ever, with dozens of companies reaching the multi-billion dollar level in sales (see [www.inddist.com](http://www.inddist.com)).

K 2007, the leading International global plastics trade fair in Dusseldorf, Germany, to be held in October, is completely sold out, with almost 3000 companies from 57 countries showcasing their products in 1.8 million square feet of exhibit space. For more information go to: [www.k-online.de](http://www.k-online.de). See you at the K later this year. In a recent study of the U.S. Plastics Industry, published in March by S.P.I, the number of plastics processing plants declined 15% from 1997 to 2005, with production worker employment down 13% - however dollar value of products increased by 29%! Productivity certainly is rising in our industry ...for more data and trends, see [www.plasticsdatasource.org](http://www.plasticsdatasource.org).

OUTLOOK ASIA: by Mal Binnie,our special correspondent embedded in the Pacific Rim

A recent survey by the Economist Intelligence Unit sponsored by the US Chamber of Commerce showed that Executives are concerned about Investment Prospects in Thailand. Singapore is the highest investment priority and has good intellectual property laws. It also showed that USA Executives are more concerned than European or Asia Pacific counterparts about the economic decisions of SE Asian governments when they are considering investments.

Australian Sheet Traders (AST) headquartered in Melbourne will further expand their operations on June 5 with the opening of a branch in Perth Western Australia. Greg Muneke Australian GM announced the appointment of Rod Gaspar, State Mgr. Gaspar brings experience from GK Cameron, Plastral and Burnside Plastics.

Mulford Plastics were awarded the Best Shell Scheme Stand at Visual Impact Image Expo held on the Gold Coast Queensland. The show was a huge success with visitor numbers and exhibitors well up on 2006. Arnold Mouw, Managing Director of Mulford Plastics, has just returned from India. He recently announced the appointment of David Campbell as General Manager Engineering Plastics following the decision to make the Company a full line distributor. Acquisitions in NZ and Australia are expected to follow. Campbell had previous experience as GM Cadillac Plastics NZ and latterly obtained his Six Sigma Black Belt with GE Plastics Australia.

The developments in the Vietnam Plastics Industry shows continued growth and other Asian manufacturers are entering Vietnam from countries such as Malaysia to take advantage of this growth.

EGR Plastics Australia has announced the appointment of Iain Whyley as Sales and Marketing Mgr Extrusion Products located at their St Leonards Sydney operations. EGR head office and manufacturing are located near Brisbane Queensland. Whyley has spent the last 16 years with Mulford Plastics Australia.

**Editors Note:** This month we begin a new section, *PVF Perspectives*, to appear regularly, and to cover the Plastic Pipe, Valve and Fitting (PVF) sector of our industry. We have had numerous suggestions over the eight-year life of this publication that those in the IAPD's PVF section have not had much coverage of their segment of the industry. To address this, and to provide market intelligence to general line manufacturers and distributors as well, we have been fortunate to obtain the writing talents of one of the PVF industry's leading observers and commentators who has agreed to submit his outlook from time to time on these pages...*David Chasis*, author of *Plastic Piping Systems*, and former executive with NIBCO, Worthington Pump and Plastic Piping Systems; and most recently owner of Chasis Consulting Systems. For more information and to contact David, go to: [www.davidchasis.com](http://www.davidchasis.com).

**PVF PERSPECTIVES:** by David Chasis special correspondent for PVF. **In the USA we estimate that 70 to 75% of industrial piping applications (on a temperature/pressure basis) can be handled with thermoplastic piping materials. Presently less than 15% of industrial applications is handled by plastic piping. Most applications that thermoplastics have market share in are underground such as irrigation, water mains, gas distribution, drainage, etc. The PPFA product line committee, TIPS (thermoplastic industrial piping systems), has developed educational tools that are being promoted to educate the engineering community of the do's and don'ts of plastic piping. I am surprised that the UK has only 5% share of the industrial piping market.**

### **Why PVC Piping Systems?**

Plastics are the fastest growing piping systems in the world and have been for over the last three decades. Why? They are environmentally sound, easy and safe to install, reliable, long-lasting and cost-effective. Today, plastic piping is the preferred material in water mains, sewer lines, irrigation systems, swimming pools, drain-waste-vent lines, water well-casings, chemical and acid drainage systems, natural gas distribution lines, and slip-liners for damaged municipal piping systems to name a few. And of all the plastic pipe materials in use, Polyvinyl Chloride (PVC) is by far the most popular (estimated PVC usage is over 70% for all plastic piping installations).

PVC resin is made (by weight) from 43% of petroleum based feedstock and 57% from salt. This means PVC production uses less energy, generates fewer emissions, and requires fewer natural resources than many other piping materials. And, since salt is a relatively inexpensive compound and one of the most voluminous elements on earth, PVC is more sustainable and very price competitive compared to other piping materials.

...to be continued in the July 2007 issue

### **MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:**

**GE Plastics acquired by SABIC Industries**, 70% state owned by Saudi Arabia, and led by CEO Muhamed H.Al-Mady. Purchase price was \$11.8 billion, financed by borrowing \$9 billion from four lenders, including **GE Capital**. SABIC is basic in ethane from Saudi Aramco, the world's biggest oil company, (convertible to ethylene at a cost of \$50 metric ton, while **BASE** and **Dow** rely on naphtha, convertible at \$500/mt), as well as benzene, which is a critical feed-stock for polycarbonate – a major engineering plastic, pioneered by GE Plastics.

**Lanxess** (a **Bayer** spin-off company) wants to buy **RAG**, Germany's **Degussa** unit...if an IPO planned by RAG is not finalized. Degussa had revenues of 11 billion Euros, which includes 400 million in engineering plastics and 800 million in PMMA, as well as a growing PEEK presence.

**Degussa** just announced plans for a world scale MMA plant in China, with 100,000 mt capacity..

**Dow Chemical** and **Saudi Aramco**, via a jv, have agreed to build one of the largest plastics and chemicals facilities on the globe at Ras Tanura on the Saudi Gulf Coast – estimated to be a \$20bn deal. It joins the largest oil company on the globe with its largest chemicals and plastics producer and marketer. The growing influence by the Saudi interests on our industry, as outlined above with SABIC's and Saudi Aramco's

strategic moves, can not be overemphasized.

Eastman Chemical boosts copolyester capacity in the U.S. – to come on stream in 2008.

INDUSTRY INTERVIEWS: Dick Garthwaite, Exec. V.P., Business Answers International.

Dick, who resides in the Phoenix, Arizona area, was formerly President of Westlake Plastics, A.L. Hyde and Polycast Corp. We interviewed Dick in person and by email at his Arizona office.

Q. You recently joined Business Answers International (BAI) as Exec.V.P. after being out of our industry for a while...what brought you back?

A. *I guess I thought after 30 years the idea of retiring and just doing what I want was quite appealing. But after a while I knew that I needed find something to do with myself. When Rich approached me about joining Business Answers International it seemed like a perfect solution for me. It will let me stay involved in an industry that I spent virtually all of my working life in, but do it at my pace. Also, I thought that bring my manufacturing background to BAI would be a great compliment to the strong distribution and fabrication backgrounds of Rich and Mike, making us a true one stop shop for consulting in the plastic shapes business.*

Q. BAI's announcement said you will concentrate on Mergers & Acquisitions and Strategic Consulting...what does that mean? Will M&A activity be with manufacturers or distributors?

A. *We feel that the next few years will continue to be a good environment for acquisition activity in both distribution and manufacturing and we are uniquely positioned to play a role in facilitating these types of transactions. On the consulting side, the combination of backgrounds we have at BAI puts us in a good position to help both manufacturers and distributors understand their business and position them for long term success.*

Q. How did you get into our industry?

A. *When I was graduating from business school I was looking for a small company to work for. Herb Engelhardt at Polycast was looking for someone to help turn the company around and we just hit it off in the interview process. It was a wonderful experience that required really getting in and understanding the strengths of the company and how we could find a place in the market place dominated at the time by Rohm & Haas (Plexiglas) and duPont (Lucite). After that I pretty much stayed in the industry as I changed jobs because my experience in the industry was a real benefit.*

Q. During your business career you have had management and leadership roles with Polycast, Hyde, and Westlake...which was the most rewarding? Most successful?

A. *I guess I would say that Polycast was the most rewarding in that I over saw our entrance into the aircraft transparency market and we went from nothing to the dominant player in only a few years pushing Rohm & Haas out of the market in the process. Hyde was probably technically the most successful organization of the four that I have run.*

Q. How were those three previous companies similar? Different?

A. *The common thread among all three was the customer base that primarily consisted of plastics distributors. This was a real benefit in my move from Polycast to Hyde in that I was well aware of how important a good relationship between manufactures and distributors was and how to implement changes at Hyde to get it more distributor friendly. Of course there were differences in the material produced and sold, but the strategies were pretty similar*

...to be continued in the July 2007 issue

*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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