



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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TENTH YEAR

Dear Colleague:

Recession roils recovery...incessant inflation imminent – we await the results of the global rescue and recovery efforts being promulgated by government-financial sectors in every corner of the globe. Best estimates for a bottoming of the business cycle in what has become a crisis of liquidity, affecting the efforts of businesses in our industry to normalize, are early 2010. What will the globe, and especially our plastics semi-finished shapes industry look like one year from now? We expect some small growth in activity, with some new products emerging. There should be some resumption in consolidation among both distributors and manufacturers...especially the smaller companies that survived 2009. There will be opportunities for these companies to sell and yet achieve a fair multiple on their present decade earnings...however bargains will abound for the acquirers. On the other side of the equation, expect inflation to re-surface in a major way. With demand growing and the inevitable results of central banks “printing” money to achieve fiscal and monetary relief based on current policy...double-digit inflation may rear its ugly head. Hope for the best (in 2010) but prepare for the worst.

Adding to economic woes in the U.S and Europe...hard times in China. Growth there is slowing to 6.5% this year, enviable by any global standards, but well below last year’s amazing 9% growth. China will also slow its purchases of U.S. bonds, thus pushing up interest rates. With GDP in all the global economies, with the exception of China and India, expected to fall in 2009, this will be a year devoted to surviving by covering expenses. However, businesses still must buy goods and services to function, so opportunities exist for those companies positioned to provide the basics...the 80-20 rule of customers will continue to fuel some innovators.

Two ways to cut costs on information technology: archive e-mail off-site, minimizing the necessity for expensive servers. Retaining records is a must for to extract sales leads of former employees, protect against disasters and lawsuits. Outsourcing e-mail storage can cost as little as \$10 per year per user with Google Message Discovery and other providers.

TRENDS: NPE 2009, scheduled for June in Chicago, is reporting exhibit space running equal to NPE 2006, at this time. This is a spot of good news on the gloomy horizon... Dow and DuPont are major participants, with SABIC Innovative Plastics back (GE Plastics dropped out in 2006).

This all augers well for our industry, looking ahead to resumption of growth in 2010.

U.S. demand for specialty plastic films will approach \$7.6 billion by 2012 and 18 million tons of PVC, PE and PP resin will be consumed by the pipe industry globally by 2010 – again growth!

Future market demand for bioplastics, primarily from corn, are expected to reach 50 billion pounds a year by 2015 as the search for alternatives to petrochemicals intensifies. India is expected to be the third largest global consumer of plastics by 2010, as its growth accelerates.

Clear resins, such as PC, PETG and rubber modified terpolymer, (Kostrate®-ABS/MMA alloy), are increasingly competing with glass for glazing and other applications...distributors take note.

OUTLOOK ASIA...by Mal Binnie, our Pacific Rim correspondent, stationed in Australia

We now have two of the icons of the Australian plastics industry which have disappeared in the past decades. Firstly, Cadillac Plastics, after 30 years and now Nylex Corporation after more than 50 years although the Nylex of today was very different from the Nylex that developed out of Moulded Products. The Derham family headed by John Derham and then followed by his sons Peter and Michael took the Company to be a major plastics producer in the ANZ market and then expanded into Asia. A key brand name in the 1970's was Perspex and during those years Nylex was a 50% owner in the formation of Cadillac Plastics Australia. More will follow next month but around the plastics industry in ANZ most executives will recall their time at these two icons of the industry.

Australia has been deeply involved in helping Victoria recover from the devastating bushfires that took more than 230 lives and destroyed many idyllic country villages. The plastics industry has been involved and will continue to be involved in the reconstruction of these communities.

2008 was another year full of disasters but recovery in China after the Sichuan earthquake is well underway and demand for plastics in the area is growing and at Chinaplas 18 – 21 Guangzhou, a procurement seminar will be held by Sichuan representatives. India's Central Government, in response to plastics industry requests, is investing in infrastructure improvements and upgrading. Special Economic Zones are also providing real benefits to the plastics manufacturers.

Chi Mei Taiwan has completed the construction and equipment installation for its 100,000MT ABS plant. Malaysia is now feeling the full effect of the global downturn with plastics output dipping 30%. Some work is being transferred by US manufacturers from Mexico to assist Malaysia and Singapore.

OUTLOOK EUROPE...by Chris Parry, our European correspondent, reporting from the U.K.

The move of most European economies into recession, and the even faster decline in the key manufacturing sectors, (automotive, electronics etc.), continues to dominate European plastics business news. Amongst all the dire market news, comes a timely, and happier, reminder that we work in an industry that has made a substantial contribution to our respective economies over the years and continues to do so. **Perspex is 75 years old this year.** Originally developed by ICI, (sadly now no longer in existence as a company in its own right), as a replacement for safety glass. It was one of those serendipity moments when 2 independent research projects came together and Perspex was born. It's difficult to imagine now, how different many industries would be if we did not have PMMA sheet. Belgian technology company, Racquet Plastics has developed an anti-bacterial system that can be compounded into polycarbonate, acrylic, ABS and other sheet materials. The resultant anti-bacterial surface is effective in killing over 99% of MRSA, E-Coli and Salmonella bacteria within 2 hours of contact.

OUTLOOK NORTH AMERICA... by **Bill Shields**, our *North American correspondent stationed in the U.S.*

The overall U.S economy, in 2008, grew by just 1.1 percent. Fortunately the Plastic Industry was much stronger in 2008. In the middle of our deep recession comes the announcement that PP & PE resin prices will increase by \$0.08 per lb. effective in March. The Economic Stimulus Package has been passed. We will wait to see the results. The political push is for renewable, non-polluting energy. Mexico has announced an “unexpected drop” in its GDP. Businesses are cutting their inventory investments in an effort to keep costs low in this economic climate. The Commerce Department says inventories fell by 1.3 percent. Expectations are for the jobless rate to rise to 10% by the end of 2009. A \$1.75 trillion deficit is forecast in 2009 from the Federal Government. A report from Ottawa, Canada’s Capital, suggests that Canadian manufacturers expect the economy to become worse before getting better. Apparently 620 companies were surveyed. The City of Hampton (Quebec Province) will receive more than \$1.1 million for infrastructure upgrades and repairs by the end of 2009.

North American Manufacturer/Distributor News:

Arkema, Inc. has acquired a majority ownership of medical and semi-conductor focused Oxford Performance Materials, Inc. The firm’s 2008 sales are approximately \$2 billion.... **Curbell Plastics** announced that Peter Sauer has been promoted to Chief Financial Officer... **Laird Plastics** Philadelphia branch is the first reported distributor location to have successfully completed the IAPD’s Level II Plastics Certificate Program.... Kutztown, PA based **Palram Americas** has announced the following personnel changes: Mark Weaver is the new Technical Support Manager, Mike Swimm is the new Market Manager and Tim Cronrath is promoted to Product Manager.... Columbus, OH based **Plaskolite, Inc.** is now offering thermoformable sheet made from Eastman Chemical’s new Tritan® copolyester for signage applications... **Quadrant** announces the following winners of their International Award for Academic Excellence in Engineering Plastics and Composites: Rodney Priestley, Phd, Paul Podsiadlo, Phd and Edwin ChanPork, Phd... **Toyota Canada** is cutting production and pay to avoid layoffs of their 5,000 employees... **ZL Engineering** has signed ThreeFour Solutions as their manufacturers representative in the states of OR, WA, ID, MT, NV, AZ and UT.

PRICING: All commodity group pricing (especially benzene) is flat or down in price, although PE and PP prices are testing single digit price increases, as demand is starting to exceed supply. Other commodity and specialty resin prices are holding stable, along with shapes that follow.

MANUFACTURER/DISTRIBUTOR BRIEFS: Solvay Advanced Polymers introduces and sells directly, Zeniva™ PEEK rod and plate, targeting implantable medical device markets, which are part of the biomaterials family of products which include polyphenylene and polyphenylsulfone.

Westlake Plastics now featuring medical implant grade compression molded UHMW sheet, as well as medical grade radio opaque Radel® with barium sulfate.

Ticona offering GUR® UHMW with vitamin E antioxidant for use in orthopedic implants.

Kydex LLC, formerly Kleerdex, finds expanding markets for its sheet with antimicrobial protection targeted for use in medical device equipment. Quadrant reports a 10% decline in sales for 2008, as the global recession affects its results. Sabic Group profits plunge 95%, affecting SIP.

Bayer and its BMS unit cutting expenses due to a sharp downturn in global activity.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

Filtrona sells its sheet (Southern Plastics) and profile extrusion business for \$115 million to private equity firm Saw Mill Capital Partners. Nylex of Australia likely to be broken up and sold. Abu Dhabi's International Petroleum Investment Co. buys Nova Chemicals for \$2.3 billion. Freedom Plastics (PVF products) files for receivership...had 2008 sales in excess of \$100 million.

INDUSTRY INTERVIEWS...concluding our interview with Rick Filiault, President, Optiglass

Q. Will you be importing any PC film? From where and from whom? Coated or uncoated or both?

A. *We import film from Longhua in China. We chose Longhua because of the 5 Breyer extrusion lines and in line quality systems. They are an excellent partner and put out the most optically clear film in the world. Karl Greenbaum, another GE alum, has done a great job so far running our film business.*

Q. Will you sell to both distribution as well as end users? Will you use Manufacturers Reps? What will determine the breakdown?

A. *I prefer to sell through distribution in areas where our partners have a presence. If we don't have a distributor partner in the area, we will take larger business direct or try to find a local distributor partner. Most of our business has been generated by the Optiglass PC team. However, recently we partnered with 3 outstanding firms throughout the US (Harker and Associates in the West, Randy Boles and Associates in the Southwest and Martino Marketing in the East). They have all been great additions to our team.*

Q. Any plans for marketing other than monolithic sheet?

A. *We are getting into forming and painting NASCAR and NHRA windows since teams are now looking at coated sheets to extend the life of the windows. We are also starting a high optic uncoated and coated acrylic line as well as a formable mar resistant sheet.*

Q. What are the biggest challenges facing you in 2009-2010? How will the shift from inflation to deflation in pricing impact profits?

A. *The biggest challenges we will face in 2009-2010 will be:*

Managing the extreme growth, we have been very fortunate and have captured many large customers. We are fighting everyday to keep our lead times down to 2 weeks. The volatility of the raw materials and film, with Benzene below 2003 levels and the devalued Chinese Yuan it's going to be a full time job making sure we stay competitive with the right amount of stock at the lowest price. 2009-2010 is also going to begin the decline of the production of the Mine Resistant Ambush Protected vehicles as well as a continued slowdown in building and construction. The strengthening dollar will also slow our sales into Europe and Asia.

Q. On a personal note, what do you consider your greatest accomplishment?

A. *Raising great kids of course!*

Q. If you could come back as someone else, who would it be?

A. *This one is tough. I am so happy being me, it may seem corny but I'm living my dream every day.*

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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