



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

Part news. Part views.

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Dear Colleague:

Uncertainty underscores understanding of market conditions globally. “Uncertainty is the last refuge of economists who can’t explain what is going on”...says one of them. What appears to be stunting global economies is the lack of credit offered by banks as a result of too-loose credit in 2008-2009. This holding back of credit by financial institutions was true in the Great Depression and is existent during the Great Recession. We don’t believe uncertainty is holding back companies from borrowing nor are onerous taxes, record budget deficits and lack of demand. Conversations with all sectors of our industry indicate demand is strong, profits healthy and optimism into 2012 continues. What is suffering is the investment in new products, applications and markets, which will affect long term industry health. This despite the fact that many large corporations are sitting on much cash, as in-house insurance as well as availability for opportunistic acquisitions, which could affect our industry next year.

Look for inflation in our industry to hold steady at about 3% as energy prices soften and 2012 begins (oil expected to start year at \$80 a barrel...rising to \$90 by mid-year). Ample natural gas supplies should keep prices steady during 2012. Shipping costs however will keep rising (expect 6.5%) as shortage of highly qualified drivers continues...a move to rail will add to its upward price trend. The sovereign debt crisis in Europe, led by Greece will be resolved without a domino effect but changes are coming including a fiscal union, matching the monetary one existent.

Look for major technology moves affecting business in 2012...IBM will introduce a huge multidisk drive that can store a trillion files, leading to lower storage costs for all users. A new chip from Intel in 2013 will power next generation of portable computers called Ultrabooks, combining tablets and typing into laptops. Cell phone and data services will get a boost when transmission technology doubles pass thru data by 2013.

TRENDS: The “Big 50” list of the largest industrial distributors has been released by *Industrial Distribution* at <http://www.inddist.com> and in first place is Wolseley with sales of \$20.9 billion...among those with a plastics shapes presence are: W.W. Grainger; Applied Industrial Technologies; and MSC Industrial Supply – all multi-billion dollar sales organizations.

E-Commerce has changed the plastic distributors approach to its customers, especially the end-users, who increasingly expect:

- “click of the mouse” comparison of items across suppliers
- 24/7/365 customer service, including technical expertise; order status and tracking
- overnight or same-day delivery and ease of returns (hassle free)
- green packaging/waste reduction
- 100% accuracy and quality of orders

OUTLOOK ASIA: by Mal Binnie, our Pacific rim correspondent in Australia

As the second (or is it the 3rd, 4th or 5th ?) global financial crisis hits the Pacific, with all local currencies adjusting to U.S. and Europe concerns, plastics prices will need to rise to make up for these changes. The A\$ was at \$1.07 to the US\$ a month ago... is now \$0.97. Markets in China and India continue to perform strongly and in many industry sectors local plastics firms are seeking further expansion into overseas markets such as Brazil and Russia. In the plastics machinery sector, Indian and Chinese manufacturers are forming JV's, while Italy grew exports to China by 20%. Huntsman invests \$40 million in a new Asia Technical Center in Shanghai. A new recycling consolidation with PET supplier Indorama Bangkok acquiring Wellman International is proceeding. China's medical market is targeted by European and U.S. plastic firms. Kolon Industries, in S. Korea lost a legal case against DuPont over aramid fibre. Sumitomo Tokyo adds new plant in China to produce PP. Film extruder Toray Plastics expands operations in the U.S. as does Mitsubishi Polyester Films. Mitsubishi Rayon forms JV with SABIC to build two new MMA plants in Saudi Arabia. Teijin develops and begins supplying low cost radiation fluorescent plastics.

OUTLOOK EUROPE: by Ralph Ammann, our European correspondent in Germany

Fraenkische Rohrwerke Gebr., Kirchner GmbH & Co. KG from Koenigsberg, Germany, will expand with a new plant in France, which will be completed in summer 2012, and will mainly produce pipes for rainwater irrigation and 'Rigofill' - storage blocks from injection-molded polypropylene. At the same time the Wavin-Group extended its recyclore technology. The Dutch Group invested approx. 5.4 million EUR in plant accessories for the production of pipes which are produced with 50 percent recycled plastics. The quality of those pipes is said to be of the same as new goods, but costs shall be far lower. The technology uses a three-step extrusion process to produce pipes with three PVC layers. The inner core consists of recycled PVC, the two outer layers are of new PVCs. Wavin's waste water pipes 110-160mm according to media reports shall be the first of their kind to be produced with this technology. With the start of their new product family Victrex Pipes, Victrex Polymer Solutions (VPS) – one of the world's leading producers of polyaryletherketones (PAEK) – launched its new website www.victrexpipes.com. This microsite shall work as trustworthy source for pipe- and tube products extruded from Victrex ® PEEK polymers. According to company information it shall also show the numerous advantages of Victrex Pipes, which offer a wide product range for various applications as an alternative to metals and other polymers. The capability of the new pipes to resist high temperatures, corrosive conditions and aggressive chemical environments offer new possibilities to increase availability and reliability of the plant under circumstances which steadily get rougher in the gas and oil producing industry. BASF AG' Cellasto is celebrating 50 years of developing, producing and distributing finished parts and springs of all kinds made from Cellasto PU which is used in fields where other materials like rubber and steel are limited. In the automobile industry, for example, springs and attenuators made of Cellasto are used as they are volume-compressible and long lasting and reduce harshness, vibrations and noise. The Russian HaloPolimer-Holding, one of the world's leading producers of fluoropolymers like PTFE, modernized its production site in Kirovo-Chepetsk. According to media reports the company invested approximately 21 million EUR into the upgrading of the chlorine electrolysis process from mercury to the modern membrane technology. Another 5.4 million EUR are budgeted for the establishing of new plants for the production of chloroform on the basis of methane. In addition, by 2012 the company will have invested a total of 12.8 million EUR into the expansion of their fluoropolymers production. During 2010, HaloPolimer-Holding produced more than 7,000 tons of fluoropolymers.

OUTLOOK NORTH AMERICA by **Bill Shields, our special correspondent in the U.S.**

The U.S. economy is heading downward...the last two years of real sales growth that most in our industry have experienced will take a breather – for 3-4 quarters. The resulting good news is that prices for commodities such as PP, HDPE, PA, PET and POM will start retreating in Q1 2012. Softening of sales expected to begin this quarter and manufacturing capacity will exceed demand, creating shorter lead times.

PRICING: Prices on commodity thermoplastics such as PE, PP, PS fell last month tracking crude oil price trends...up-tick expected in 4Q 2011. Prices on ETP's, including PVC, MMA and PC are expected to continue their single digit chronic monthly rise. Resin buyers are getting smarter about multi-tier pricing dependent on buyers knowledge of trends in feedstock price data that affects their buys...statistical tools offer negotiating tools.

MANUFACTURER/DISTRIBUTOR BRIEFS: Hurricane Irene triggers flooding at L-E-M Plastics in New Jersey...other fabricators affected as well, but recovering. Quantum Polymers is offering Kynar® 450 PVDF shapes, amidst shortage of PVDF resin. Lucitelux™ from Lucite International now available in .236" continuous cast thickness, which affords illumination in LED edge-lit displays. Evonik's new offering of Vestakeep PEEK certified for medical use as implants...available in stock shapes from sources such as Modern Plastics, CT USA. Also from Victrix are PEEK pipe and tubing used in offshore oil and gas applications. SABIC's Lexan® Exell® D PC sheet, is increasingly being used in solar shade panels offering performance and sustainability. SABIC forecasts engineering thermoplastics market to grow 3-8% to 2015 Bayer Sheet Europe changes name to Bayer MaterialScience GmbH, N.V. and SpA. Teijin Chemicals launches radiation-fluorescent polyester to be used as scintillators...called Scintirex. Solvay introduces Amodel® PPA resin for automotive electronics use...features ultra-high heat distortion temperature resistance, even in laser welding applications. Duo-Gard Industries has supplied 90% of the translucent canopies, made of twinwall PC sheet, for Wal-Mart supercenters. Curbell Plastics named authorized DuPont SentryGlas® interlayer distributor...widely used in security glazing and skylight systems. NPE 2012, April 1-5 2012 in Orlando, FL open for registration. Sleep therapy devices using Cyclopol and Lexan resins. Foster Corp. introduces custom drug delivery extruded film and rod from polymer blends...targets implant, patch and oral drug delivery applications, as a leader in biomedical materials.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Daikin America to add fluoropolymer capacity for FEP and ETFE in the U.S. – complete in 2012. Will also expand in China by 2013. Ford Motor sells two major plastics parts plants to French company. Saint-Gobain Performance Plastics is buying Bekaert Specialty Films (operated as Solar Gard), with plants in U.S. and Belgium and sales of \$150 million...produces coated films for solar control as well as tinted and security markets. Filtrona (Alliance Plastics, etc) buys Reid Supply, an industrial distributor. Evonik Industries to increase global MMA capacity by 50,000 mt. LG Group, of South Korea to produce ABS, PVC and polyolefins in Russia. Ticona opens globe's largest acetal plant in Germany...will produce 300 million pounds of product. Dow Chemical expands production of Enlight polyolefin encapsulant solar films in Thailand and Germany...targets photovoltaic applications. Brazilian plastics giant Braskem SA is now the largest polypropylene resin supplier in the United States. The company closed on its \$323 million purchase of Dow Chemical Co.'s PP business in September.

INDUSTRY INTERVIEWS: continuing our interview with Jim Donaldson, AIA Plastics

Q. What made you decide to specialize in skylight manufacturing?

A. I saw a real need in the Rocky Mountain area for skylights because people wanted more natural daylight and cut down on energy bills. We always distributed acrylic skylights and some larger glass structural type skylights. In 1987, we purchased the assets of two skylight manufacturing companies another in 2000, then the equipment from another one in 2003. When the economy is down, there are opportunities. This put us in the manufacturing business as the distribution business was going downhill for the small independent distributor. In 1999, we started another company, AIA Industries, Inc. to do the skylight part of the business. We then started doing more glass and Polycarbonate structural skylights as well as the acrylic domes. We have done many high end homes; the largest is 35000 square feet of living space as well as commercial work. Some of the more prominent jobs have been the Firefighters museum in lower Manhattan after 911, the airport baggage area at the airport in Winnipeg, Canada, and many historic renovation projects across the country.

Q. What percentage of your revenue comes from pure distribution of semi finished shapes? What are some of the more important product lines?

A. At this time, our distribution sales are only about 15% of our total business and limited to acrylic, polycarbonate, polyolefin sheet, but no mechanical type plastics. We do not attempt to compete with the large national or international distribution firms.

Q. How has our industry changed since you became part of it over 35 years ago?

A. The industry has changed to more big players in the last 35 years with fewer small independent distributors. With the internet, customers can shop their needs more on a national market rather than regional suppliers so the competition is not just the company across town.

Q. What will our industry look like in 2042?

A. 2042 is 31 years away so I am not going to be effected. I see more consolidation as the big and powerful have the ability to take over a larger part of the plastics industry. A lot of new materials and uses for plastics will come about which will present opportunities for companies that stay on top of the technology.

Q. Who are some of the people/companies that you remember along the way to your success?

A. Over the years, I have been very fortunate to have close friend, mentors, and tough competitors in the plastics business who kept me on my toes. To name a few that really stand out were: Tom Cooper, Bruce Ayer, John Amberg, Mel Coren, Ed Statter, John Kozacki, Ray Kruse, and of course, my wife Marge and son Jay who have worked with me for many years and given me many reality checks.

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

A. Being able to build a successful company while still maintaining a personal balance. Doing a lot of traveling, taking time for hobbies, sports, being with family, and spending time at our cabin in the wilds of Wyoming.

Q. In a future life, if you could come back to Denver as someone else, who would it be?

A. Probably myself except better looking, richer, & more successful; Robert Redford, someone good looking, rich, and successful.

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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