



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

SEPTEMBER 2006

Dear Colleague:

Erratic economy embroiled ...outlooks for 3Q and 4Q 2006 sales and profits continue strong – 2007 seems uncertain as to sustaining growth. Many U.S. economists point to an anemic 2% growth next year due to continued concern over energy prices and interest rate increases against a backdrop of uncertain inflation rates. In our own industry, price spikes seem interminable and unfortunately endemic in the twenty first century, so far.

Some global GDP growth forecasts for 2007 versus 2006:

Canada	2.8 %	3.1 %
Euro Zone	1.8	2.2
Mexico	3.5	4.1
China	9.0	10.1
Japan	2.2	3.0
United Kingdom	2.5	2.4
South Korea	4.8	5.0
Brazil	3.8	3.7
India	7.3	7.5
<b>Global Average</b>	<b>3.1</b>	<b>3.6</b>

U.S. Export growth will slow to 9% in 2007, down from 12% in 2006, led by chemicals and plastics, industrial machinery and IT, as the dollar declines against most world currencies due to a leveling off of interest rates. Oil prices seem to have peaked at about \$70 per barrel, although any supply distribution can have an upward effect - natural gas however will be more costly by the end of 2006 due to typical supply-demand pressures.

We see plastics demand exhibiting solid growth thru 2007, due in part to continued upward movement in both ferrous and non-ferrous metals market, once again opening up new vistas for metals replacement applications. Those companies practicing world class quality market and product development will reap the benefits of this ongoing sea change in our industry and will be the growth leaders for the balance of this decade.

TRENDS: What would Napoleon do? How to run your business like the man who ruled Western Europe? This is the premise of a newly published book, *Napoleon on Project Management*... some key values taken from his writings are:

- A good memory
- The power of mathematics
- Staying cool
- Go amongst the troops
- The futility of tyranny
- Popularity

We recommend a closer look at some of these management principles which are as relevant today as they were in Napoleon's time, with the use of high tech tools, of course.

Home Depot, thru its Home Depot Supply unit keeps expanding in distribution via acquisitions – its latest is in electrical distribution, with 59 branches in 9 U.S. states... now beginning to rival Blackfriar's Consolidated Electrical Distribution business. Home Depot Supply (HDS) now represents 13% of parent Home Depot's sales, at \$3.38 billion for 2Q 2006. Last month The Rexel Group purchased GE Supply, GE's electrical distribution business, thus further consolidating that industrial distribution sector in the hands of the "big three". HDS head Joe DeAngelo is quoted as saying that they will continue with acquisitions. Can entry into Plastics distribution be far behind?

The most immediate effect on our industry of the London terrorist plot was to cause a need for 240,000 PE bags a day by British Air alone, within hours of the tightened security procedures ... this to allow inspection of liquids, preventing them from being carried on board aircraft, in accordance with new security procedures. Demand for plastic pipe is increasing at double digit rates, especially in Europe and North America, as copper prices continue to escalate and PVC, PE and other pipe materials find replacement application markets.

Another Trend we spotted during a visit to one of our subscribers that we shall call...

A DAY AT CURBELL PLASTICS, was our observation of a 21<sup>st</sup> Century Plastic shapes/semi-finished/sheet, rod, tube and film distributor.

We were pleased to experience first hand, a company that was started in 1942 and has "old fashioned" values that are religiously followed — ***Integrity, Respect and Learning***... designed **TO BE THE BEST!** (not necessarily the biggest). They do this by focusing on their people providing Recruitment, Training, Retention and Selling Systems. With an in-house Marketing Communications Department, Curbell is producing its own printed selling materials (down to a telemarketing script designed for specific customers), marketing initiatives and application development... many of their suppliers find their approach outstrips most manufacturers initiatives. To all this add Six Sigma and ISO 9000 certifications, and you have the makings of a world class plastics organization.

PRICING: Prices on PMMA sheet, both cast and extruded, were raised by 5-8% in late August by several major Japanese producers, affecting most Asian markets. Meanwhile, prices for PE and PP resins, after taking a breather in August, were set to go up several cents per pound, due in main to supply shortfalls. Overall, most resin prices affecting our industry's shapes markets are poised to continue a moderate rise thru 1Q 2007, with selective variances, including but not limited to nylon which continues to show steady increases in pricing.

DISTRIBUTOR/MANUFACTURER BRIEFS: Vitasheet Group, British Vita's newly named extruded sheet and film division is planning to close two plants (one in the UK, another in Italy), while maintaining existing plants throughout Europe. Plastic Suppliers, Ohio, introduces a corn-based PLA cast film to be used in packaging markets both as cast and as shrink film.

Ayer Sales, Massachusetts-based distributor was featured in the August 3<sup>rd</sup> edition of *The New York Times*, in its Small Business column, as a survivor despite losing half its business in 2003.

Futurplast, extruder of various thermoplastic tubing opens its 8<sup>th</sup> U.S. distribution center in Ohio.

Spiratex Co. adds UHMW profile extrusions to its product line in Monroe, Michigan.

Lucite International will increase PMMA resin prices by 120 Euros/tonne, effective 1 Oct. 2006.

Dupont's Vespel being used as thrust washers in the new Audi – a first for this application.

New PETG (VIVAK HT) film products from Bayer's Sheffield unit and Ultem WH217 film from GE Plastics, highlight the growing penetration of these films into the graphic and identification markets, including formable applications and elimination of surface treatments.

AIN Plastics, ThyssenKrupp Materials NA unit, to relocate to a new 50,000 square foot facility in Yonkers, NY, moving from its flagship location in Mt. Vernon, NY. Simona reports a 28% sales growth in its H1 results, led by its U.S. facility, in year over year comparisons.

OUTLOOK AMERICAS ...introducing a new feature by new imbedded reporter Rick Wagner:

Rick Phillips leaving Ensinger-Hyde at end of year...will stay in the industry in some sort of joint venture yet unannounced. Mario Di Iorio of Plastifab may be buying it back, again, from Ensinger-Hyde. Changes happening at Nytec may include the departure of Don Drew.

OUTLOOK ASIA ... by Mal Binnie, special correspondent, reporting from the Pacific Rim:

MMA suppliers have increased prices throughout Asia and acrylic sheet prices have accordingly been increased by up to 7% for September shipments. Mulford Plastics Australia, appointed Steve Baker as Branch Manager Victoria and Tasmania – Steve was previously with GEPS and GEP.

Chinese Building market continues to grow rapidly and to overcome leaking flat roofs, municipal governments are moving to pitched roofs and to capitalize on this new market, GE Plastics have co-extruded Geloy ASA with PVC to enable local fabricators to produce lightweight roof tiles. This market is expected to grow to \$US350 million by 2008. It is reported that Australian researchers have produced a plastic polymer that changes to a fireproof ceramic when subjected to high heat or the open flame of a fire. Solvay building TFE powder plant in China, to meet local and global demand. *In memoriam*... Jacqui Marshall, director/co-owner of Eplas Pty Ltd, with her husband Eric and Gino Valente built an Australian leader in Engineering Plastics.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

DuPont has expanded its Vespel resin capacity by 50%, reflecting the continuing growth of the parts and shapes business – located in Circleville, OH as well as its Tedlar film business in NC. Sheffield Plastics, a unit of BayerMaterial Science, adds new PC sheet line, said to offer state of the art optical and durability products.

This is estimated to be its 13<sup>th</sup> extrusion line producing about \$180 million in sales.

Home Depot Supply buys Edson Electric Supply and Texas Contractors Supply, while building materials distributor Ferguson acquires two plumbing and heating distributors.

BASF sells part of its acrylic monomers business for certain Eastern European countries to IMCD based in Rotterdam, Holland. Simona has added to its semi-finished plastics manufacturing business by acquiring Dehoplast in Germany – principally a producer of PE and PP sheet, rod, tube and profiles.

**PEOPLE:** Rick Phillips resigns as head of Ensinger-Hyde, effective Dec. 31, 2006 — Chris Ranello is new General Manager. Quinn Plastics named Tom Nulty G.M. and Renato Patti manager in Italy. Curbell Plastics promotes James Forcellina and Dennis Freeman to management positions as regional director and business manager, respectively. New Chairman of Bayer Material Science is Dr. Hagen Noerenberg, formerly head of ICI and Huntsman Polyurethanes. Susan Avery to preside over first IAPD annual convention as new Executive Director.

**INDUSTRY INTERVIEWS:** ...concluding our interview with Rainier Schorr, Senior V.P. and Head of Polycarbonate Business Unit, N.A. BayerMaterialScience LLC.

Q. How does Sheffield Plastics rank among your converters of resin to sheet and film? Who are the others globally?

A. *Of course among the largest, but In addition to Sheffield in the U.S..there is Spartech – in Europe Semi Finished, Bayer Sheet Europe. In Asia, Bayer Sheet Korea, Laserlite in Australia and a jv in China, namely Bayer Gyang and in Mexico we have IMSA.*

Q. Are you looking at vertical integration in sheet distribution similar to what Lucite International is doing in the U.K. with acrylic? Would you ever be interested in acquiring some distribution company such as GE Polymershapes, Thyssen Schulte or Laird/Blackfriars?

A. *No!...we make resin and sheet only.*

Q. Will the supply chain be altered with the aid of E-commerce in the next decade?

A. *Yes – I believe it will and thus we have been developing tools such as improved websites. We currently do about 55% of our business by E-commerce, which is just another way to accomplish business transactions. It is here to stay.*

Q. Some reports have suggested that GE has put GE Plastics up for sale. Are you looking at the “book”...if there is one?

A. *We were not contacted but if it looks interesting we shall see.*

Q. What are the similarities in market positioning of Bayer and GE Plastics? Bayer and Dow? Dow and GE Plastics?

A. *We are not so concerned with positioning but rather with the needs of our customers. Helping our customers grow with our products and services is what we do best. There will always be competition...it is good for business.*

Q. Where do you see your polycarbonate business in 2009, at the next NPE in Chicago? In 2007 at the next K Fair in Dusseldorf?

A. *The PC business will still be important for BayerMaterialScience, which has been experiencing a nice growth rate for many years now. Our task is to help the market use more PC products such as Makrolon and Bayblend. With the continuing GDP growth, especially in developing countries, such as China, India and in Eastern Europe, new consumers will be filling needs...our goal is to outgrow GDP by 2 times. Bayer will continue to show the flag with partners for long- term growth.*

*You'll notice at this years NPE, GE Plastics is not present as an exhibitor and Dow is here in spirit only. This may be a predictor for the 2007 and 2009 exhibitions and beyond.*

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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