



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Affirmative advice aims at assets. We see signs globally that despite worries about economies of most nations, no recession looms anywhere, however the risk remains. A self-fulfilling prophecy must be avoided especially considering the liquidity problems at global financial institutions based on the U.S. Mortgage markets collapse. The rest of the world should weather this storm and many economists are forecasting a global economic growth of 3.3% in 2008. China and India will experience a 10% and 9% growth respectively, with Europe coming in at close to 3%, as will Mexico and Canada.

An expansion in the coming months should be sustainable albeit at a sluggish pace. Ominous trends, however, should not be ignored – rising oil prices...perhaps in the \$80 -100 barrel range, will of course continue the inflationary pressures on plastic shapes prices for the balance of this decade. The emergence of a credit crunch in world markets seems to be choking business investment which is key to continued economic expansion...now in its fifth year in our industry.

Good news for shippers: melting ice, perhaps caused by global warming, is causing rapid thinning of the ice pack in the Arctic, making an easily navigable Northwest passage a reality. For example, a ship taking the northern route between Europe and U.S. West Coast would travel 5000 fewer miles...faster and cheaper cargo deliveries for businesses.

Business opportunities are looking up in many sub-Saharan African markets. With oil and other raw materials exports growing, there is now cash available for imports of many products and services...worth a look, with 6% economic growth forecast for this region.

TRENDS: The recent divestiture of the Home Depot Supply (HD Supply) division by its parent Home Depot, wherein the sale price was reduced by several billion U.S. dollars (an 18% discount) due to the global credit crunch may auger a new lower multiple for Plastics Distribution acquisitions this and next year. Worth watching for the next one in our industry...purported to be a Mid-West U.S. deal (albeit much smaller than HD Supply) to be announced in September. The NAW (National Association of Wholesaler-Distributors) took legal action in a case focused on the retroactive application in an asbestos liability case affecting non-manufacturer suppliers...could affect our industry and the liability of distributors as suppliers of pre-1977 products where injuries to employees occurred – think fluorocarbon products. We'll watch the outcome of this extended litigation for our readers, which could find its way to the U.S. Supreme Court.

OUTLOOK EUROPE ...by our special correspondent **John Douglas** embedded in the U.K.

Nylacast has changed its name to Global EPP Ltd. with immediate effect, having recently sold the Nylacast name when they sold their components division to a management team. They are on their way to having 100 extruders in the U.K., which makes them a global player, matching their name. The business is well managed by Phin Fraser and they will be a force to contend with.

OUTLOOK ASIA...by our special correspondent **Mal Binnie** embedded in the Pacific Rim.

Ticona as well as relocating in Germany has plans for a new Customer Application Centre in Shanghai and has commenced production of UHMW PE at its Nanjing plant, bringing its global capacity to 90,000 MT for this important engineering resin.

M Plas 2007 was attended by over 7000 visitors over its 3 day run and as most came from ASEAN, shows in this area should be on Suppliers calendars. Aseanplas in Singapore 26-29 May 2008 and Ho Chi Minh City 21-23 October 2008. Singapore/ASEAN is a centre of new activity in Plastics Distribution with Professional Plastics reported to be opening an operation and Royalplast relocating Ian Grant from NZ to head up their Sing/Malaysia/Thailand expansion.

India continues to experience increased activity such as with DSM, who have operated in India since 1998 and will now become the largest producer of Engineering Plastics in that country. Its new compounding plant is located at Ranjagaon industrial zone.

On 29-30 November in Pune, the Chatsworth Group will hold their second conference on application and technology for high performance engineering resins. More data from Dr Philip Adams at: padams@chatsworth-group.com

Plastics distribution in India will shortly be strengthened by the opening of Mulford Plastics distribution operations. In addition their parent company Royalplast is reviewing an MOU for a JV to produce their Alsynite FRP roofing products.

Degussa received approval for its production of MMA at its site in the Shanghai Chemical Industry Park. Start up planned for 2009 and production 100,000 MT/Year. Degussa also opened a new R&D facility in August.

Mulford Plastics have advised of their appointment as exclusive Distributor for GE Lexan Sheet and Film in Australia and New Zealand and have further expanded their portfolio of products with their appointment as Kleerdex Agent. Arnold Mouw, Managing Director will be visiting both the IAPD in Dallas and K2008 in Dusseldorf to meet suppliers.

Since the early 1900's Lexan and other GE plastic products have been compounded in Dandenong, Melbourne, Australia initially with the Hogg family and then directly as GE Plastics in the mid 1970's. Now it is reported that the decision to close this compounding operation has been announced Looks like a win for Bayer!

In 1935 a young New Zealander Bob Stewart brought plastics to his country. In 1947 he worked at a company which in 1957 he bought and named PDL, and it became a major supplier of electrical fittings, switch gear etc. Unfortunately Sir Robertson Stewart departed us in August at the age of 93 and in so doing lost NZ one of its real pioneers of the Plastics Industry.

PRICING: Prices are inching up again... nylon, PBT and PET resins are up \$0.10/lb, while PVC, PE, PS and PP are generally rising, albeit some fluctuation from month to month. Feedstocks, especially benzene and acrylic and adipic acid get their share of the blame, although with oil hovering in the \$75/barrel range, predictions are for no relief into 2008. For a good overview of pricing trends in most raw materials, go to: www.purchasingdata.com

PVF PERSPECTIVES: With the merger of McJunkin and Red Man, the resulting \$3 billion plus company and the largest U.S. PVF distributor, the march of private equity into industrial distribution and the MRO sector continues. In 2006, the U.S. pipe extrusion manufacturing business consisted of primarily 10 companies with sales totaling almost \$6 billion...consolidation continues in both sectors of the PVF industry. Thomas & Betts buys Lamson & Sessions, creating another mega PVC pipe and conduit extruder.

MANUFACTURER/DISTRIBUTOR BRIEFS: GE Plastics' LNP unit (before they became SABIC Innovative Plastics, now to be known as SIP...see below) launched a high specific gravity composite, incorporating tungsten with nylon 6, challenging lead-encapsulated glass for X-ray shielding applications in the medical and dental industry – a major new technology and marketing coup. GEP (now SIP) reported it is working on a Fire Panel made from a special Noryl® blend that is designed to protect U.S. Army and Marine Corps vehicle fuel tanks from exploding when hit by enemy fire in the Iraq conflict and beyond. GEP's Thermoclear PC sheet is increasingly being used for the roofs of three stadiums under construction for the European Football Association Euro 2008 championship games...a considerable amount of sheet being used in this growing application.

Simona's turnover grows 20% to €151 million in the first half of 2007, although profit falls.

Quadrant reports increases in revenue of 2% and profit by 10% for the first six months of 2007.

Its High Performance Plastics business increased sales by 4%, although EPP was lagging.

Quadrant's EPP unit will also introduce polyimide (PI) shapes and PVDF film in 2008.

Separately, Quadrant was approached by private equity firms to take it public. They declined.

Kleerdex showcases Kydex® Sheet at Aircraft Interiors Expo in Hong Kong this month.

Palram opens its new PVC sheet plant...adjoins its PC plant in Kutztown, PA, USA.

Solvay and Ensinger jointly introduce Self-Reinforced Polyphenylene (SRP) shapes for metal-like strength and stiffness in this “ultra polymer”...details in a Web Seminar Sept.18, 2007.

BASE adds new polyarylsulfone called Ultrason P ...for pipe connector and valve applications.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Saudi Basic Industries Corp (SABIC) completed its \$11.6 billion purchase of GE Plastics (GEP) from the General Electric Company and renamed it Sabic Innovative Plastics (SIP). In an announcement on August 31, 2007, SABIC's CEO Mohamed Al-Mady named Brian Gladden as President and CEO of SIP, adding almost \$7 billion in sales and over 10,000 employees to SABIC. The Specialty Film and Sheet and Polymershapes businesses are now divisions of Sabic Innovative Plastics and continue intact, under the same management.

Belgian thermoformer Vitalo, with sales of \$100 million, expands into China, with India planned next.

ThyssenKrupp Services has acquired Stovkis Plastics with five locations and a central warehouse in the Netherlands and Belgium...reportedly sales in 2006 of €12 million. Also expands plastics distribution in Russia. Meanwhile, in North America, ThyssenKrupp Materials has purchased OnlineMetals.com, based in Seattle, which in addition to distributing both ferrous and non-ferrous metals, also sells industrial plastic rod, sheet and plate, primarily in small cut-to-size quantities from a 10,000 sq ft warehouse via a website.

ALP Lighting Components has acquired Spectrus Inc. and its LexaLite and PSI brands.

Chevron Phillips Chemical breaks ground on a new 22 million pound Ryton® PPS plant.

Degussa doubles size of its Shanghai China R & D center.

INDUSTRY INTERVIEWS: Dave Huston, third generation owner and **President of Olson Manufacturing and Distribution**, Kansas based, with three locations. A graduate of Iowa State University, Dave joined the family business in 1975 (his grandfather invented the Ames Lettering Guide). He has two daughters and resides in Overland Park, Kansas.

Q. How has business been lately?

A. *Good news/Bad news I would say. It has been a challenge passing along the raw material price increases we have seen the last year or two, but I am sure other distributors are having the same difficulty. On the other hand, our backlog is as high as it has ever been so we have plenty of fabrication work for the foreseeable future. I am spending a lot of time identifying the fabricated items that have sub-par gross profit margins. We have to be selective about the minimum margins we are willing to accept since we are at our capacity limit. Besides, some of our OEM customers have implemented a "no price increase" policy. When we notify them that there has been a price increase, they send the item out for bid. Sometimes we win and sometimes we don't but that is OK because it helps to establish the pricing level of the marketplace. Besides, you can't please every customer every time.*

Q What do you expect for the remainder of the year?

A. *My guess is more of the same for the next 6-12 months. I cannot see our elected officials putting the breaks on the economy going into a national election. That is bad for their business plan.*

Q. What is the best idea you've implemented in the last six months?

A. *We did an analysis of our corporate operations with the intent of utilizing some Lean Mfg. concepts. Lean Mfg. is a bit of a "concept flavor of the month" but it did show that there were substantial savings if we consolidated our fabrication resources. We have spent the last 4 months moving the majority of our fabrication resources to Kansas City. This was a major move but one I do not regret. It simplifies our operations, reduces operating costs, and gives us greater flexibility when quoting fabrication order.*

Q. What is the biggest issue facing distribution/fabrication today?

A. *Am I limited to just one issue? There are several concerns that I have about the distribution/fabrication industry and at the top of the list is the growing number of suppliers (sheet, rod, and tubing shapes) compared to the declining number of distributors in the industry. (Note that I am using distributors and fabricators to mean the same type of business.) I believe we are just beginning to see the globalization of the supply side of the marketplace while the distributor side stays on a national focus. Maybe I am wrong but I believe there are too many suppliers chasing too few (and declining) distributors. Sooner or later manufacturers will solicit business that historically might have been distributor business. Tied into this is the general lack of communication between manufacturers and distributors. However, this is not a new problem but one that is getting worse from my point of view. As you know, our industry thrives on rumors and gossip and with less communication between manufacturers and distributors, the faster decisions are made with incomplete market information. It is surprising the number of times suppliers compete against themselves by supporting a different distributor than the one who already is bringing them the business.*

...to be continued in the October 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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