Mel Ettenson's GLOBAL PLASTICS LETTER
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"A World of Plastics Information"

APRIL 2007

Dear Colleague:

Various verdicts validate vitality…the state of our industry remains strong and vital, despite signs that the productivity boon that began in the mid-1990s is showing signs of slowing. Some reasons are to be expected: this is normal for this stage of the business cycle which is in its sixth year of expansion; when expansion matures, firms often hire in anticipation of future sales, slowing productivity growth. The capital spending drought that followed the 2001 technology-investment bust left the growing work force with less equipment to work with, hindering productivity growth. In early 2004 productivity was growing at better than 4% - but slowed to 1.4% in 4Q 2006. Continuing productivity slowing could lead to slower growth in living standards and a greater risk of inflation…we will be watching this burgeoning trend in the future.

Lower costs for metals will cheer up builders and manufacturers, but not our plastics industry, which has recently captured many opportunities for metals replacement applications due to a price-performance ratio. Copper is headed for a 6% decline at the $2.50 per pound price point where substitute products made from plastic are competitive especially in electrical applications. Following a 30% drop in nickel prices, stainless steel costs are also headed lower.

Recession talk is prevalent in some circles, and a slowing is being talked about as April begins. We expect stronger second-half growth of about 3% - following a similar first-half gain of 2-3% on an annualized basis. For now, the missing piece is business spending – its absence is what hampers growth. However, many companies are using up swollen inventories, in the last 6 months especially - that should change this spring leading to full year growth in business spending of 5.5%…most of it coming in the second half of 2007.

On balance, global economies continue to grow…but slowly. The business mood in our industry is cautiously optimistic and April shows no signs of setting sales records. However, 2Q 2007 looks favorable and as the daily figures start to climb, optimism will once again set in and be self-fulfilling.

TRENDS:

U.S. pipe demand, led by steel and plastic is expected to exceed 16.7 billion feet by 2011, according to a Freedonia Group study. Plastic pipe will consume 11 billion pounds of PVC and HDPE resin, exhibiting a 2.4% annual growth during the period 2006-2011. A considerable quantity of ABS pipe is being used in a 157,000 square meter major hospital development in Derby, England for chilled water services We will have more PVF information in subsequent issues – a good source of information for the industry is: www.plastic-pipes.com.

Much has been written on China's ascent and importance in the global plastics marketplace, so the Chinese word and symbol for plastics becomes more important in business communications – for the mandarin symbols, email us at: info@globalplasticsletter.com.

Just One Word: 塑料 (That's Chinese for 'Plastics').

We wrote in our March newsletter of a growing trend for both distributors and manufacturers to participate in forums so as to develop *Connected Customers*. Now leading the way in the consumer world are Amazon, Apple, Medtronic and Netflix and following close behind are many business-to-business websites who recognize that businesses used to just sell stuff, and that was the end of it. The customer was always right, yes, but only on the phone and when returning product. However, in the 21st century, the Net makes it ever easier for buyers and sellers to talk to each other. So smart companies are listening to their customers, using them to develop products, and trying to lock them into long-term relationships. The customer loyalty that two-way business inspires, reduces price sensitivity, which after all is the goal of profitable marketers.

After declining 6% in 2005 and another 2% in 2006, NA production of plastic film and sheet is expected to increase 4% in 2007 – back up to 2004 levels. This, according to Plastics Economics, presages a continuing expansion of these key products in our industry. On another front, the Extrusion Business Index, published by Plastics Technology is forecasting similar bounce back statistics, as extruded sheet follows cast products in an encouraging revival of business. We will be examining markets for rod and tube in a subsequent issue.

Some trends worth watching, especially by the distributor sector in our industry are:

- Outsourcing billing
- Using Lean Six Sigma to continuously minimize surplus inventory…not just at year end.
- Continuously review annual plan…review the review
- Demand-driven products and quotas rather than manufacturer pushed
- Pay for performance compensation as well as fee for service and functional discounts

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

The NZ distribution market is going through real change. Dotmar EPP has announced its acquisition of Engineering Plastics Ltd (EPL) with branches in Auckland, Palmerston North and Christchurch. It is now reported that Ludowici, another leading Australia plastics distributor, is seeking buyers for their outlets in NZ. The European suppliers to the NZ market will be watching these developments closely.

Companies continue to open new plants in China/Asia. Wacker in China and Singapore and Solvay in Jiangsu China with PTFE.

The Singapore Government is promoting, to European suppliers that want to enter the China market, a pairing with reliable Singapore subsuppliers that are already operating in China and can therefore protect intellectual property.

By working with the Society of Plastics Engineers of India (SPEI) you may be able to gain a share of the Indian Government technology and development fund, approx worth $US 600 million. The SPEI expects to win a significant share of this fund aimed at further improvements in performance of the plastics industry.

Sign China 2007 March 19-21 in Guangzhou has already booked nearly 200 exhibitors including representation from companies such as Avery Dennison, Leister, CIBA Speciality Chemicals, Roland, AKZO Nobel, DSM Engineering and many others from throughout the Asian Markets.

Coming Events:

June 21 - 24 .... Interplas Thailand......... Bangkok Thailand
July 18 - 20... Visual Impact Expo ...... Sydney Australia

PRICING: PVC, PET and PS prices continue to move down and up, while PE, PP are rising again. PC continues its upward spiral as benzene prices have their chronic effect…Bayer raises PC by EUR 0.25 per kg. (see related story on GEP and its potential new owner with benzene feedstock being an important factor). Rohm and Haas increases MMA monomer by .05/lb.

DISTRIBUTOR/MANUFACTURER BRIEFS: GAPI, Italy and Ohio, PTFE supplier, appoints Foust Marketing in Texas as new Manufacturers Representatives for Southwest U.S.

Society of the Plastics Industry (SPI) launches content-rich, interactive online market and meeting place for Plastics Professionals globally – now–"live" at: www.myPlasticsIndustry.com.

New company, Rakku Designs, develops a rotating shoe rack that resembles a hamster wheel – used clear acrylic sheet for side panels…then switched to clear PVC as MMA prices escalated.

Gehr Plastics celebrates its 75th Anniversary in Mannheim, Germany and hosts its 2nd Gehr-Symposium on May 11th…features former German Chancellor, Helmut Kohl as speaker.

Sheffield Plastics, a Bayer MaterialScience Company introduces a new Voice-Over CD featuring its newest Makrolon® Sheet and Makrofol® film products for the sign and display industry.

GE Plastics donates free Lexan PC sheet to be used as storm shutters on new Habitat for Humanity homes being built in the U.S. Gulf Coast in the wake of Hurricane Katrina.

Victrex develops PEEK hook and loop fastening systems and also launches "on-the-go" version of its website, *Victrex.mobi*, designed specifically for PDA's and other handheld devices.

MERGERS, ACQUISITIONS, ALLIANCES,DIVESTITURES AND EXPANSIONS:

GE Silicones division, now known as Momentive Performance Materials Inc. after spinoff.

GE Plastics (GEP) appears to be of interest to SABIC (Saudi Basic Industries Co.), according to a report from the *Fiancial Times* of London – GE has put GEP up for sale and is reviewing bids.

Chevron Philips is moving ahead with plans to build a new PPS resin plant in Texas, doubling its capacity to a total of 44 million pounds per year by early 2009.

PEOPLE: Richard (Dick) Garthwaite joins Business Answers International as Exec. V.P.
– to be interviewed in June 2007 Global Plastics Letter.

INDUSTRY INTERVIEWS: Nick Kraguljac, Board Member of the Klepsch-Group and Director of Sales and Marketing of Zell-Metall Austria. Nick, born in Detroit, recently was awarded an honorary citizenship of Austria for his contributions to national and international business relations of Austria and his community service activities. He is also the recipient of the IAPD and EPDA pacesetter awards. John Douglas, our special European correspondent, interviewed Nick at his offices in Kaprun, Austria.

JD: Living in a beautiful Austrian Village at the bottom of a Glacier and producing plastic products is every ones dream. When did ZM start producing plastics?
NK: *My family started with a bronze foundry in 1914, and our first entry into stock shapes was 1955 with Nylon as my uncle Dr. Klepsch had the foresight that crystalline plastic products would push Bronze out of many applications. Acetal followed in 1967 and Cast in 1969. PET was added in 1982 and then we went to PEEK in 2001. In 1964 we also started to manufacture PS, ABS and PMMA and are since many years a global technology leader of co-extruded products. Today we manufacture in Austria, Italy and Mexico with a manufacturing plant going online in Russia this May.*

JD: Does Zell-Metall have new products on the way?
NK: *Back in the early seventies we were the first to introduce a working Oil-Filled Cast Nylon and want to continue this tradition inventing totally new product concepts. As you know we own a research and development company which employs persons with University degrees in Chemicals, technical physics, mechanical engineering, plastic technology and more. They have come up with a breakthrough method of filling products to alter the properties of materials. We are just introducing a Nylon with properties such as PA 66 GF 30, but without the glass filler. Can you imagine how easy this product is machining in comparison to glass-filled materials? And on top of this, Zellamid® 202 XN is FDA compliant and almost 20% lighter than GF materials.*

JD: Any others?
NK: *Yes – an electrical conductive Acetal. All our competitors at this time need to fill POM with 30-40% of carbon to make it conductive. You do not have to be a physics technician to know what this does to the properties of the base material. Our method gives Zellamid® 900XELS 10^3 to 10^4 Ω but at the same time retaining the other properties of unfilled POM. We also offer a Zellamid® 900 XAS, which is our anti- static Acetal which shows excellent surface and volume resistivity of 10^{10}. New products and services are being added all the time.*

JD: How do you bring such products to market?
NK: *We wish to push forward and create new applications and support our distribution partners. Zell-Metall is dedicated bringing our products with them to market, and so to ensure the service level is maintained and that our and their market share grows together. This is our philosophy and I still believe it works. In order to support them we have created a sales network and new logistics points in Europe, Asia and North America. Besides 26 sales offices worldwide our logistic centres carry extensive inventories to shorten the supply line. These include the ZL engineering plastic locations in the USA, PMP in Asia and also include France, Italy, Germany, Spain and very recently a new sales and marketing operation in the UK.*

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