



GLOBAL PLASTICS LETTER

E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

“A World of Plastics Information”

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10TH YEAR

Dear Colleague:

“Toxic” targets tell tale...global economic woes persist. As we complete 1Q 2009, most of our industry is experiencing the deepest recession results in recent memory...conventional fixes of steep expense reduction are not working. When customers are not buying, no strategy, including deflationary pricing, seems to make them buy. Demand is down as the dampening of optimism and confidence prevails across all industry segments, across the globe. More than just credit liquidity is at work here...fear of the unknown needs to be overcome – a surge of investing is imminent. We are forecasting a bottoming of economic factors to occur in 3Q 2009, leading to a recovery pre-2010...despite many predictions of a 2010 bounce back, at the earliest. Some factors are in place to support our position – there will be a resurgence in consolidation by acquisition in our industry as bargains abound with financing loosening. (See Industry Interviews below).

A brighter tomorrow?...yes, but slowly, with energy prices remaining low; with the U.S. dollar relatively strong; consumers (including homebuyers) beginning to spend; and stock markets (which usually foreshadow recoveries) going into positive territory as investors emerge. Yet, global GDP is headed for a 1.5% drop in 2009 with the only exceptions being China, India and Brazil, which will experience single digit growth. Expect relatively stable fuel prices this year with oil ranging from \$40-50 per barrel...gasoline, diesel and heating oil should hold at current levels, rising slightly in summer (consider locking in natural gas and electricity prices now). All told, allows good planning for the year ahead.

Businesses in our plastics industry have little or no pricing power as they continue to deal with high inventory levels and unsold products, with nearly 30% of manufacturing capacity sitting idle. We saw one outcome of this with the announcement that PVC sheet producer HPG (see below) is close to shutting down after a bankruptcy filing failed to ignite a reorganization nor attract investors. More manufacturing consolidation appears inevitable.

TRENDS: Social networks on the internet, such as Facebook, My Space, Plaxo and Linked In, can be a business tool. They can make it easier to communicate, collaborate, stay in touch with customers...find new ones and even try them out as an in-house communications mechanism. Look for 2010 recovery... this is the latest generally accepted economic forecast that we believe.

Reflation...this description of a scenario that could emerge as stimulus plans restart the global economy includes rising commodity prices and interest rates. Watchful warning is indicated, as there will be opportunities on the upside of price increases which have already started (see Pricing below).

Quadrant has reported 2008 year end figures, resulting in a 10% drop in revenue and a larger drop in profits, although high performance plastics reported results compared with composites and pipes. We expect similar news to come in from the publicly held manufacturing and distribution sectors, as the economic downturn really showed up dramatically in 3Q 2008. SABIC's Vice Chair recently stated that the GE Plastics purchase was "badly timed" with the world-wide banking crisis dampening results.

Both plastics distributors and manufacturers are exploring opportunities for acquisitions, especially capitalizing on new business generated by government stimulus initiatives. Amid the bad news of branch and plant closings and employee layoffs, some are looking to take market share from struggling competitors as ways to grow in a difficult economic environment.

The Indian plastics industry is poised to become the globe's third largest consumer of plastics by 2010. In five years it doubled consumption figures for the prior 30 years! Exports are growing 21% annually. PVF and film products as well as packaging, automotive, health care and construction are key markets. (Source: India's major and award winning publication - *Popular Plastics and Packaging* and its Editor, S. Rangarajan). Now in its 54th year!

Expect a 10-15% jump in prices for most metals by year-end, with copper and zinc even higher and oil in the \$50-60 range by early fall...about \$10 higher than earlier forecasts. Plastic film and sheet sales will begin to recover in 3Q 2009, led by PP, PE and PVC. Meanwhile, the SPI is offering discounts and incentives to exhibitors at the upcoming NPE exhibition in Chicago in June...a first, reflecting the times.

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

"Pessimism is the most serious cause for the global economic tsunami" states Sir David Tang, "it is only with a sense of optimism, preferably accompanied by a sense of energy, that we will be able to pick ourselves up." China's current situation is a downturn, not a crisis, with loans and money supply continuing to grow. So why are some multinationals changing their attitude to foreign direct investment in China and India? Globalisation may be seen as an opportunity, but the future growth in the use of plastics will still be concentrated in China and India. For PE and PVC, China is forecasted to grow by 58% through 2012 and India by 100%. Sig Floyd President of Valushar is quoted "that companies that wish to enjoy long term success in China must have an investment mentality despite the tough times." Refer www.valushar.com for more details.

China is again increasing the export tax rebate for some plastics resins and finished products. The rebate could reach 13% for certain grades. Bayer Polymers (Shanghai) advised that its 10% partner in the polycarbonate manufacturing unit Shanghai Chlor-Alkali is seeking to sell its share. The winner of the European PC Sheet extruders award competition Li Jiwei used 800 sheets of Makrolon PC to cover the German Embassy in Beijing. The sheets were heated to 212F and shaped by hand to resemble a giant sports shirt. Different!! China's largest domestic resin compounder Kingfa Sci Tech Co has opened its UL approved long term thermal aging laboratory.

A Government appointed body has recommended establishing a single National system for regulating the Australian plastics industry. After many years with EPlas Pty Ltd Erich Turner has taken the opportunity to establish his own Company - Composite Plastics Technologies. Erich is keen to expand his product line and can be contacted at complas@bigpond.com. Exhibitions: 8-21 May Chinaplas, Guangzhou China.

OUTLOOK EUROPE: **Chris Parry**, our European correspondent, checked in with very little good news... and thus passes on his report this month, awaiting more uplifting news.

OUTLOOK NORTH AMERICA: by Bill Shields, our North American correspondent

The economic contraction continues to be worse than expected. The U.S. unemployment tolls are now 12.5 million –an unemployment rate of 8.1%. The US Trade Deficit fell to \$36 billion in January which is the lowest level in 6 years. This was a 9.7% decline from December. At the same time exports of goods and services fell 5.7%. US manufacturers are additionally hurt by this drop in exports. Industrial output dropped by 1.4% in February. In January orders to US factories dropped by 1.9% capping a six month steady decline... Kansas machine shops are crushed by major cutbacks at Bombardier Aircraft, Cessna Aircraft, and Hawker Beechcraft due to the deferring or canceling of airplane orders...the RV Industry's sales have dropped dramatically due to the lack of sales to the Baby Boomers. Canada's economy posted a record decline of 3.4% which was the biggest decline since 1991...Canadian unemployment is now 7.2%....The Canadian Government has developed their own government stimulus package with a \$32 billion price tag....with a drop in demand for Canadian made cars comes a downturn in the industries supplying parts and materials to these factories...Some plastics distributors are laying off branch personnel as well as instituting one furlough day per month...Businesses cut inventory levels for the 6th straight month trying to cope with reduced sales in the U.S. while Canadian inventories have fallen for the 7th straight month. Start up Canadian company, Everbrite Solar (Kingston, ON) announced they expect to create 1,200 new jobs for their solar module manufacturing plant which it predicts will produce 150 megawatts of solar panels each year which will be enough to power 20,000 homes annually. A bright spot – Overland Park, KS based Smith Electric Vehicles plans to build an assembly plant to manufacture all electric delivery vans.The jv of Ford Motor Co. and Tanfield Group Plc expect to put the vehicles for sale through the Ford dealerships in 2010. They will be powered by rechargeable lithium-ion batteries and be able to travel up to 100 miles at a top speed of 50 mph on a 6 – 8 hour charge. **N.A. Manufacturer/Distributor News:** **BASF** announced Luran S BX 13042, a new ASA copolymer with antimicrobial protection... Montreal based and 3rd largest manufacturer of commercial aircraft, **Bombardier** received a \$1.5 billion order from Lufthansa for 30 new regional jets... **Dow** finally will purchase Rohm and Haas Co. for \$15.3 billion...Pittsfield, MA based **SABIC Innovative Plastics** announced job cuts at plants in Indiana and Mississippi, announced that they will reduce their resin output by 20% by the end of 2009 and signed an exclusive distribution agreement with Ashland Distribution to sell its resin products for all of North America...**Solvay Advanced Polymers** announced both KetaSpire PEEK and AvaSpire modified PEEK have achieved ISO 10993 biocompatibility compliance for use in limited exposure medical devices and instruments...**Spartech Corp.** is cutting 260 jobs across all business units on top of the temporary plant shutdowns and temporary pay cuts. This action was necessary as their 1st Quarter FY 2009 sales dropped by 26 percent.

MANUFACTURER/DISTRIBUTOR BRIEFS: Metro Station in Toulouse, France wins EPSE's best PC Innovation award...artwork, lighting and glazing integrated and supplied by SYSTRA.

Highland Plastics' Korlux sheet, developed to simulate granite, and primarily made from PP, is introduced. HPG, formerly sheet producer Huls, shuts down as it searches for financing...still in bankruptcy in PA. DuPont offers Vespel® SP-2515 shapes and parts for highest performing market applications. Altuglas International supplies 85,000 pounds of Plexiglas® sheet for innovative exhibit in Mexico City. Bayer introduces edge lit Makrofol® PC film.

MERGERS, ACQUISITIONS, DIVESTITURES, ALLIANCES AND EXPANSIONS:

Freedom Plastics, major PVC pipe and fittings producer, split up and sold to 4 companies.

Milacron Inc., leading producer of plastics machinery, files for bankruptcy after 125 years.

Arkema of France, closes its UK office but maintains its sales force – also introduces transparent bio-based polyamide named Rilsan® ClearG830 Rnew.

INDUSTRY INTERVIEWS: ... Hank Booth, President, Piedmont Plastics, Charlotte, N.C.

Hank joined Piedmont in 1974 as sales manager and became its owner in 1982. He is a graduate of Dartmouth College and has an MBA from Boston University. He resides in Charlotte, NC with his wife and two children. We interviewed Hank by e-mail from his offices in North Carolina.

Q. How has business been lately?

A. *We had a solid 2008, but began to notice a weakening in the fall. Like everyone, Starting 2009 has been weaker than last year.*

Q. What's your outlook for 2009?

A. *It will be a challenging year. We, as an industry, will not be able to expense our way out. We need to increase the industry's share of the materials market.*

Q. What is the greatest challenge facing Piedmont Plastics today?

A. *We must maintain focus despite the political and economic issues. We feel that as long as we "feel good" about our plans and actions, we will continue to achieve our goals.*

Q. What's the best idea you've implemented in your company in the last 6 months?

A. *An honest and tough minded approach and understanding of who we are, what we are good at, what we are not good at, and who we want to become.*

Q. On January 1st of this year you announced the acquisition of Warehoused Plastics Ltd in Canada, bringing your distribution center count to 35...will you continue to grow this way?

A. *We will continue to grow by acquisition and by green fielding.*

Q. What have been some of the key factors in your acquisition plans?

A. *Company culture fit, very similar businesses, and an understanding of that particular marketplace.*

Q. We see many companies attempting to grow by broadening their product offerings...is this happening in Piedmont? How?

A. *We have always attempted to broaden our product offerings. We try to confine these to what fits our expertise. In the past some have been very successful, and some not so.*

Q. Is your recent enhanced foray into ETP's and HPM's a long term or an attempt to re-start growth in 2009?

A. *This is long term. We have always had an interest in these products. We are attempting to add more focus to our efforts in these products.*

Q. What's your view of the smaller, independent plastics distributor/fabricator? Is there and will there continue to be a place for those companies? Industry consolidation trends have some analysts predicting will lead to elimination of many mid-sized companies, leaving just a few large players such as Piedmont, Laird and Sabic Polymershapes. What are your thoughts?

A. *Many years ago, I was told by a major manufacturer, that Piedmont could not survive because we were too small. We try never to underestimate our smaller competitors. Some will choose to sell; others will continue to grow.*

Q. Obviously, the economy has been the biggest newsmaker recently. What can your suppliers do to enhance your mutual growth?

A. *Suppliers and distributors both need to work to increase our industry share of the materials market with new products and aggressive sales and marketing.*

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.