



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

AUGUST 2008

Dear Colleague:

Unprecedented, extraordinary price movements evoke 1973 conditions...demand historic decisions. Surcharges abound. Sales levels remain brisk and units shipped keep growing, with no shortages in sight... unlike 1973 conditions. The run-up in metals commodity prices has opened up replacement opportunities for our industry ameliorating buyer hesitancy to pay ever higher prices for commodity-like plastic semi-finished shapes.

While crude oil prices are expected to abate in the coming months, don't count on a break in natural gas prices... now up about 66% from last years average. While aluminum trends 10% up from last year, there is some easing of prices for copper, nickel, stainless steel and zinc...still at historic highs affording replacement opportunities into 2009. Another supply-demand challenge is the availability of capital in the form of credit and the continuing slide in the U.S. dollar, especially versus the Euro. This stifles growth in the NAFTA – EU global sector and is expected to remain a barrier to growth into 2009-2010.

How much will global climate change costs? Billions of dollars every year, starting in the next decade and ramping up by 2030. Especially affected will be metals manufacturers with greater than normal energy needs and little room to pass on higher prices due to global competition. Our chemical and plastics industry will also suffer increased costs to cut or offset emissions of a wide variety of greenhouse gases created in production –but also opportunities to gain from the metals industries' drive for energy efficiency...more demand for plastics will be created

Energy is the watchword this century... while coal, gas and oil go ever skyward in costs, solar power is getting cheaper...get your free energy audit from the U.S. Department of Energy and/or sign up for a fixed price contract for power created by the free installation of photovoltaic panels. Companies such as SolarCity and Alpha Energy now offer this innovative approach to managing energy costs. Another evolution taking place in our industry, which should be noticed, and taken advantage of this decade which is fast closing in on planners.

TRENDS: Inflation of course is relentless and is rearing its ugly head in all corners of industry and ours seems to be leading the way. Based on Producer Price Indices from the U.S. Bureau of Labor Statistics, Plastic Resins and Materials exhibited an 11.7% jump in 2Q 2008 versus same period in 2007...the largest increase of all of the 24 commodity groups tracked. Reinforcing this constant trend was DuPont's and Ticona's announcement of double digit increases in prices of engineering thermoplastic polymers effective

the end of this month...nylon, acetal and many others. This long term trend is so pervasive that we are not publishing a PRICING section this month since almost every product in our industry will be rising for the balance of the year.

On the brighter side of this inflationary scenario is the fact that product innovation and market penetration is accelerating with these increasing revenue streams enjoyed by many resin producers. Notably is the advancement of PC automotive glazing led by Bayer, as well as the initiative taken by the European PC Sheet Extruders (EPSE) organization...announcing a competition for the best innovation and best project for the use of this bellwether product in our industry. Further indication of growth is the projection that demand for all plastic film is projected to grow 2.6% annually to exceed 16 billion pounds by 2012... a good outlook!

OUTLOOK EUROPE: by Chris Parry, our European correspondent, embedded in the U.K.

In the UK press, August is the “silly season”, because there is so little news that the newspapers have to find crazy stories in order to fill space. In the Semi-finished plastics industry, August is also quiet due to vacations and the general market malaise, but hopefully there are no silly stories.

General market conditions continue to worsen, with the credit crunch affecting primarily the retail and housing sectors at the moment. Initially this is impacting to POS/Display sector for plastic sheets and boards, but will be affecting the manufacturing sector within a few months. It is likely that several European countries will be in formal recession by the end of 2008.

Despite this situation, the EPSE, (European Polycarbonate Sheet Extruders), have announced an awards ceremony for late 2008. For more information contact bianka.nagy@eupec.org .

Victrix have announced a new black APTIV film based on their Victrix PEEK resin. Primarily aimed at the speaker and acoustic markets the film will be available down to 12 microns in thickness.

The European Central Bank raises interest rates to 4.25%, its first rate increase in a year, in an attempt to rein in inflation...even amid signs of weakening economic growth.

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

Mr. Arnold Mouw has been appointed Group Chief Operating Officer (COO) and Group Operating Head (GOH) of Mulford International. Martin Nga CEO made the announcement in July. Arnold will continue to be based in Sydney, Australia and will be directly in charge of Mulford units in Australia and New Zealand. Mr. Mouw will assist the leadership team to achieve the Group’s objective of increased value added sales and an announcement on Engineering Plastics is expected soon. All buying and selling activities for Indonesia, China and SEA will be reported to Mr. Mouw. A press release from Mulford has indicated that price pressures are being felt in the market and has forewarned customers of increasing prices that may be actioned in the near future.

Alcan Composite Materials Director of Sales and Marketing for Asia Pacific David Meacham has officially sealed with Starleaton Digital Solutions their appointment as a National Distributor for Alcan Composites in the Australia sign and display market. Alcan now have two national distributors for this market. Researchers at the University of Queensland Australia have discovered how to use nanotechnology to make thermoplastic polyurethane stronger while relaxing flexibility. One product they are testing are golf balls which may help them retain their shape longer (not sure it help us golfers in matching Tiger). Biograde Ltd Melbourne Australia was awarded a US\$1.2 million contract to provide biodegradable packaging to the Beijing Olympic Games. International plastics acquisitions and mergers are still on the rise as many investors still believe that the plastics industry can provide exceptional returns. Tom Blaike President of Blaike & Co Chicago USA predicts mergers and acquisitions in pipe, profile and tube customers will increase by up to 60% in 2008. Japanese Government visa restrictions are creating difficulties for organisers of Plastic Exhibitions.

The restrictions create problems for Chinese visitors who wish to attend and thus make it more difficult for Exhibition organisers to attract exhibitors and customers.

The Olympic games will start in Beijing 8/8/08 and plastics will be on show at every stadium. Polycarbonate roofing, seating and glazing show the design versatility of plastic products. The products will also ensure the comfort and safety for athletes and spectators. The piping for the Water Cube Swimming complex is using Corzan CPVC piping from Lubrizol Advanced Materials USA. In an effort to contain costs of production companies in the major cities of China are moving from inner city to outer suburbs chasing lower rents. Chinese plastics manufacturers continue to feel rising costs including currency and government labour laws. China is still a competitive manufacturer but no longer the cheapest with countries like Thailand and Vietnam challenging their businesses. A fire in a plastics warehouse in Shanghai has killed 3 firefighters with others injured. The deaths are believed to be connected to inferior construction of the building.

China's first 1 million MT PVC plant in Pingdingshan, Henan is designed to take advantage of China's rich coal deposits by using coal for chemical production. This appears to ignore Greenhouse Gas emission concerns.

China's policies on plastic bags are getting more complex as the government patches loopholes but it has restated that the ban on free plastic bags applies to all retail stores.

Sabic and Sinopec (China Petroleum and Chemical Corp) are expanding their investment in capacity of their JV in Tianjin.

MANUFACTURER/DISTRIBUTOR BRIEFS: Gehr Plastics held a workshop on BioPlastics at their headquarters in Germany featuring 9 EcoGehr® bioplastics family of shapes, including PLA and PA. Biodegradable industrial polymer products get boost from PPC (PP & PC) introduced by Novomer as its NB-180 – burns clean at lower temperatures in order to degrade. Braskem, of Brazil, constructing PE plant using ethanol as feedstock for ethylene. Separately Braskem announced a US\$0.25/lb increase for UHMW-PE in North America. A new company, Optiglass PC, has been formed by former GEP managers...PC product line includes mar-resistant and optical grade PC sheet, and specialty films, imported from China. Altuglas marks the 75th anniversary of Plexiglas® sheet and resin by launching an online timeline at: www.plexiglas.com/history - this product gave birth to the distribution segment of our industry. Concurrently, DuPont marks 70 years of Teflon® PTFE - the beginnings of high performance materials in distributors' product lines. Vitrex launches black PEEK film named APTIV. SPI plans new technology pavilion at NPE 2009, scheduled for 22-26 June, 2009 – to feature innovations by many exhibitors. Makrolon® PC sheet by Bayer will be featured in Chinese Olympic stadiums...more than 36,000 square meters of 25mm thick sheet was used in 3 venues including the principal stadium...also used in recyclable snowboard applications. Biodegradable industrial polymer products get boost from PPC (PP & PC) introduced by Novomer as its NB-180 – burns clean at lower temperatures in order to degrade. SIP holds webinar to highlight high performance polymers (HPP) such as Ultem®.

Quadrant EPP announces Semitron® MDS sheet, rod and tube, said to be useful for electronic test applications. Vestamid® HT by Evonik, semi-crystalline PPA targets metal applications.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Spartech buys Gage Industries, expanding its ABS, PET, PE and PP sheet product lines.

Sustaplast(PA) relocates to Rochling facility in NC (USA) as the two units consolidate.

Dow Chemical buys Rohm and Haas, creating mega specialty chemicals manufacturer.

DuPont starts up another Vespel® parts and shapes facility in Singapore – now has 6 plants.

Dow and Kuwait's PIC form jv called K-Dow Petrochemicals – major PE, PP and PC producer.

Ticona brings UHMW-PE China plant on line... with a 20,000 m.t. per year capacity.

Westlake Plastics appoints Keith Bateman as Midwest Sales Manager.

INDUSTRY INTERVIEWS: Alistair Kennedy, Managing Director, Cadillac Plastic Ltd, UK.

In January 2005, Alistair purchased the business from GE Plastics in an MBO. A 27 year veteran of Cadillac Plastic, he is married and has two children and two grandchildren. He was interviewed at his offices in Swindon, Wiltshire, by our European correspondent, Chris Parry.

Q. How is the business so far in 2008? How does it compare to 2007?

A. *So far in 2008, we are showing a significant growth on 2007, which in itself was a growth year compared to 2006. Our growth in 2008 defies the market conditions and is a testament to the success of our customer focused “custom product basket” strategy. This has gained us market share in products that were already established, but also allowed us to diversify our range into new products that were needed to match our customer’s needs.*

Q. What do you see as your key products for the balance of the decade?

A. *The main growth areas in the next couple of years will be in substrates for digital printing, particularly UV based print methods; PVC replacement materials, (mainly APET and PETG), and other environmentally beneficial materials combining a sustainable source with biodegradability and/or compostability, (e.g. PLA).*

Q. How do you see the markets that you currently serve changing in the future?

A. *Unfortunately continuing the trend already established. Whilst the design, research and innovation will tend to stay in the UK, manufacturing will move east, either to Eastern Europe or the Far East.*

Q. What impact, (if any), are you seeing on your customers and suppliers from the current “credit crunch”?

A. *Happily, none as yet. Our bad debt experience is not showing any significant increase, nor are we seeing any “pull-back” by suppliers. However, on the supply side capital investment decisions being made now will not impact for maybe 2 years or more.*

Q. What were the main problems that you faced in the MBO process?

A. *The main problem was in the financing process, where the “face-to-face” negotiators invariably were not empowered to make binding decisions. We were forever leaving meetings with a clear view of what was agreed, only to find that the next day we would get an e-mail “moving the goalposts”.*

Q. What would be your two or three main pieces of advice to anyone considering an MBO?

A. *Don’t do it!!! No, not really. Firstly do your cash flow forecasting in great detail, then check it; then check it again. Ensure that it is as realistic and detailed as you are able to make it. Secondly get the best professional advice, (particularly legal and financial), that you can get and ensure that they are people that you can get on with and work with. Lastly, don’t book any vacation time and be prepared to work 20 hour days 7 days per week throughout the process.*

...to be continued in the September 2008 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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