



GLOBAL PLASTICS LETTER

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

“A World of Plastics Information”

DECEMBER 2007

Dear Colleague:

Deflation dictates draconian decisions...and yet it appears that if a “mild” recession hits in its place, the strategy must change. Thus we are seeing many macroeconomic analysts suggest preparing for either, yet diverse eventuality. What we do know, as 2007 comes to a close, is that business activity in our industry has come to a virtual standstill at both the manufacturer and distributor level. Some of this is surely seasonal, especially in the Northern Hemisphere, yet the forces of record oil prices and near-record credit tightening are causing this softening.

Economies, globally, will lose momentum...in fact the slide is already underway – growth will probably slow to about 2% this quarter. Recession worries abound with manufacturers ramping down output reacting to sluggish profit growth and anticipating slower times ahead. Growth in the first quarter of 2008 is expected to be no more than 1%, and maybe even flat. Oil prices remain high and the outlook for credit markets remains bleak with no relief in sight. The psychology of fear could further dampen the outlook for next year...not a very rosy picture.

However there is a bright spot as we expect inflation in raw materials prices to abate, thus presenting the prospects of our entering a deflationary period. Look for inflation to cool in 2008 – indexes drop to 2.5% versus this year's 4%. When coupled with the expected run-up in metals prices, there is no better time for our plastics industry to gain market share with metal replacement applications. Coming off a cycle of new product development, especially with HPM's, the incremental growth prospects are bright indeed and those companies with this mind-set and the resources to execute a marketing strategy will be in an enviable position.

More good news... the slow down in many economies augers less demand for truck and rail shipments – thus those freight rates will not move much in 2008, although ocean freight rates are due for a double digit increase next year. Now is a good time to negotiate favorable long-term freight deals.

Look for China to let the Yuan rise faster against the dollar and for the strengthening Euro to slow Europe's export growth. A sluggish Europe will hurt U.S. exports although exports to Asia will continue to grow, especially South Korea, Taiwan and Singapore...globalization marches on.

TRENDS: Production of Biofuels (Ethanol and biodiesel) are booming and resins originating from this new source of energy will be specified starting in the second decade of this century... DuPont is leading the way. Look for this to become part of our industry's language and more importantly to be called out on prints and purchase orders – see Kiplingers *Biofuels Market Alert*.

Bioblends are being marketed by Finland's Kareline – wood-fiber and PLA are new products.

Another example of new product offerings meeting global trends in our industry is Rotuba Extruders Ltd offering a phthalate-free plasticizer cellulosic for use in rod and tubing. While “sustainable free” these materials are an alternative to petroleum based traditional materials.

OUTLOOK ASIA: by Mal Binnie, our Special Correspondent, imbedded in the Pacific Rim, from his outpost in Wahroonga, Australia.

Happy Christmas to all readers and particularly those in the Pacific Area.

Speculation abounds in Australia on the outcome of the sale of Dotmar Engineering Plastics.

This includes 3 final bidders/lookers and as well as European suppliers Mulfords Australia parent company Royalplast has been reported as involved although executives from the Company have denied this speculation.

DSM continues its growth in China by increasing its capacity by 100% in two years

Chinaplas 2008 is expected to grow by more than 30% in available space and with the Beijing Olympics held 4 months later the emphasis at the Show is expected to be on sports equipment and Facilities which will include the extensive use of PC roofing by both Sabic and Bayer.

Visual Industry Suppliers Assoc. will be expecting a significant increase in visitors to their show in the Gold Coast Qld. Australia 18 - 19 April 2008. Industries exhibiting will be signage, graphics and engraving. A great location to show new products.

Visitors from Australia/New Zealand to K2007 Show have all returned to home base and the distribution industry is awaiting the introduction of new products. Will we see Eastman's new products replacing PC? What new plastics will be introduced to the customers of AST and Mulfords following the KShow? Keep up to date here!

Indian Plastics Sector: 16 Major local resin producers:

Turnover exceeds \$US 13.5 billion

Exports over \$2.0 billion

During the last 2 years 66,000 processing machines and ancillary equipment

Per Capita consumption of plastics is about 4kg.

Recycled materials constitute about 30% of consumption.

Polymer demand from India is expected to reach 9% of Global usage by 2015.

SABIC Innovative Plastics (SIP) has been assimilated. Formerly GE Plastics and now part of the SABIC Group, there has been a major culture change as well as the addition of commodity plastics such as PP and PE to the engineering plastics mix that GEP was positioned for. This will continue... the addition of a new Ultem brand resin plant in Spain in 2008 is one example. The flow of new PC sheet and film products continues and is expected to further solidify their market share against Bayer's BMS unit. Similarly SABIC Polymershapes seems positioned to grow for the balance of the next decade, despite speculation abounding as to their fit...seems secure with the continuing synergies of Specialty PC (and other engineering materials) sheet and film coming from that unit Meanwhile SIP ends its 12 year PBT jv pact with BASF – signs of continuing changes to come, as is the shedding of the Azdel composite unit. That business, a jv with PPG and GE was sold to a South Korean company, named Hanwha Living & Creative Corp. This just in: SIP is to close its ABS plant in France next spring, continuing its new owner restructure.

The continuing consolidation of the electrical and industrial distribution sector marches on...the buy-out of Hagemeyer NV of Holland by Rexel of France for 3.1 billion Euros, and the move of PVF distributor Wolseley plc, and of Ferguson to acquire several competitors are most recent examples. In the case of Hagemeyer, parts of the business are being sold to Sonepar SA.

Starch-based Bioplastics have arrived with the introduction by Cereplast of a hybrid PP and starch along with PLA. Called Biopropylene, it is a trend to watch.

A report on MRO Product Market analysis, released by Industrial Market Information Inc, estimates the total MRO Product consumption for 2007 will be \$445 billion, with Plastics products (SIC 3089) comprising \$4.482 billion (1%) consumed by 10,554 companies. More information is available at: www.mdm.com .

PRICING: Polyolefin prices have been driven up as their building block monomers underwent an upward trend – PE and PP prices were taken up single digit cents per pound. Even Engineering resins tracked upward...this at double-digit cents per pound. Forecasts are for these trends to continue into 1Q 2008, and then ameliorate based on higher capacities for building block petrochemicals as well as lower demand based on pre-recession planning. An excellent source to consult for pricing trends in petrochemicals is at: www.purchasingdata.com. Some prices went down last month in Europe while PS seemed to be in somewhat tight supply. A mixed picture!

DISTRIBUTOR/MANUFACTURER BRIEFS: Quadrant EPP appointed Switzerland's Angst + Pfister as its first European-wide distributor – has 75,000 customers and serves most European markets in 8 countries. Global EPP, formerly Nylacast Materials, has gone into receivership in the UK and a buyer is being sought – had just launched a major marketing campaign globally, including an inventory buy-back plan. SIP announces Lexan DMX films-said to be layered film offering unique properties used in portable electronic devices requiring hardness and tactile feel. Sparteck introduces its Royalite sheet especially capped for thermoforming in medical and dental applications. Eastman Chemical brings out a new copolyester branded Tritan...intended to compete more vigorously with PC as it is touted as having higher heat resistance and toughness. Oman based Octal aims for more capacity and higher market share for APET sheet. GEHR Plastics added Piper Plastics in IL and AZ to its authorized distributor list. Victrex Plc launches its new Max-Series polymer, which is a blend of PEEK and ExtremeUH thermoplastic polyimide supplied by SIP – said to provide up to 275C temperature resistance.

MERGERS, ACQUISITIONS, ALLIANCES, –EXPANSIONS AND DIVESTITURES:

Basell is buying Solvay Engineered Polymers, creating a global giant in polyolefin resins. Saint Gobain has acquired the balance of PC glazing jv Freeglass...used on Smart Car. ThyssenKrupp Services purchases Apollo Metals Group, UK based aerospace materials distributor and processor – will become leading global supplier with \$700 million in sales. Exopack Performance Films of Canada has agreed to buy DuPont's performance films business, which includes nylon 6/6 barrier films. Also in Canada, Redwood Plastics, a member of the Prisma Plastics International alliance, has bought BC Rubber Supply Ltd, expanding into elastomers and rubber distribution and fabrication.

PEOPLE: In memoriam... Mike Deeley, long time manager at DuPont and then Lucite, International, passed away recently after a sudden illness.

INDUSTRY INTERVIEWS: Bernie Konrady, owner and President of Konrady Plastics, Gary, Indiana, an independent distributor and fabricator. We interviewed Bernie by phone and email at his office in Gary, Indiana, just outside Chicago.

Q. How has business been lately?

A. *The bench mark for 2007 is 2006, which was a record year for Konrady Plastics, Inc. We're on track in 07 to do a bit better than 06. Distribution in the 4th quarter of 2007 was off to a slow start, but just recently has picked up again. After speaking with other vendors and distributors, I've found I'm not alone on that. Our machining business is up for 2007.*

Q. What do you expect for next year?

A. *I've never been good at predicting sales trends. The question in front of us now is the trouble we've seen in the financial markets and of course the huge swings in the stock market. That gives no one any comfort. Add to that the price increases in oil, and we all know what that means for our product costs. What I can confidently predict as an independent distributor, is that our business will trend the same as the plastic distribution/fabrication industry as a whole.*

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

A. *Adding new equipment. It's the same "best idea" I've had for the last 20 years. I've never regretted the purchase of a good piece of equipment, whether it was a forklift, delivery truck or CNC machine. It's always enhanced our service and production capabilities with quality and capacity. It's funny – I'm always a bit anxious about replacing a piece of equipment or adding a machine, but then, the next thing I know, we are all wondering how we ever got along without that piece of equipment. At some point down the road – that is followed by another step, which I call "insurance". By that I mean, we start to think "what happens to production if that machine goes down for a few days?". Then it's time for the addition of the "insurance machine", the "back up".*

Q. How is running a smaller, independent plastics distributor/fabricator different from managing a larger, national, or regional enterprise?

A. *I can't answer that. I have never worked for a national enterprise, but I can comment from my own experience with larger companies, both vendors and customers. My perception is that as an "Independent", my company is more de-centralized than most of the larger organizations. I think it is a matter of necessity in an organization of our size, for my personnel, from sales to shipping to have plenty of latitude in how they get their jobs done. In essence, how they satisfy the customer's needs. Getting "quick decisions" can be a tedious process with some of the larger organizations we do business with.*

Q. How long have you been in the business? How did you get started?

A. *Konrady Plastics began in 1981 with the purchase of the assets of a Northwest Indiana/Chicago area distribution company, Nering Plastics. They were a Plexiglas distributor known for colors that was started in the early 1950's in Gary, Indiana, my hometown. My wife and I were 28 years old, recently married, unemployed because we had been living outside of the country. After returning to the United States we were looking for a business opportunity. I've always been an entrepreneur at heart and I came from an entrepreneurial family. Nering Plastics had some problems and I purchased their assets. I started the company in a 2200 sq. ft. building with my wife, Sue, as a "one person" office and inside sales. We hired a previous Nering Plastics employee to work in the warehouse area doing cutting and fabricating. I was the outside sales department and delivery truck driver, my wife's German Sheppard "Ki" was the greeter. Prior to taking on the company, I had no familiarity with the Plastics Distribution Industry. The opportunity just looked like a good one... humble beginnings!*

...to be continued in the January 2008 issue.

Editors Note: Our best wishes to all our subscribers for a safe and happy holiday season. May next year bring good health and prosperity and finally perhaps peace throughout the globe!

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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™
is published monthly by Lucitron Corporation,
P.O. Box 250235, Franklin, Michigan 48025,
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

Subscription or Editorial Information: 248/258-5657
Fax Number: 248/258-0851
E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com