



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

FEBRUARY 2008
OUR 100TH ISSUE

Dear Colleague:

Flounder or flourish, fatalistic forecast...it's finally here – the “R” word is being pronounced every day and the forecasts are gloomy for the global economy. However, a look at some fundamental indicators shows the dreaded recession is not here yet...and not expected until 4Q 2008 at the earliest, by some usually accurate economist's reckoning. What we should see for much of 2008 is a slowing economy globally (growth only at 1.5%), brought on by the mortgage induced housing slump combined with the paucity of credit/liquidity markets. Most indicators and prognosticators point to a full-fledged recession in 2009-2010. How to prepare for slowing revenues yet sustainable profits?

Obviously consider cautious spending, especially capital expenditures and coupled with a freeze on hiring, target industries that are less susceptible to business downturns. Monitoring cash flows is critical of course... but look for new initiatives and markets especially driving customers to your website, which is indirectly proportional to employee counts and expense dollars.

We have just returned from the annual Executive Summit held in Washington, D.C. by the National Association of Wholesalers-Distributors (NAW). This is always a highly intellectual and relevant event, which presents many sophisticated business initiatives and forecasts trends. This year was no exception. Some highlights:

- What the Very Best Distributors Do: 9 case histories including...
- Laird Plastics' Real Time Market Pricing Data...how they price using computer database
- Growth of Distribution from \$2.8 trillion to \$4.4 trillion over 5 years...8% from 2006-07
- Distribution represents 25% of U.S. GDP growth and employs one out of every 20.

Editors Note: For a detailed summary of this key industry conference and the forecasts and analysis that affects our industry, email us at: mel@globalplasticsletter.com

How big is the global economy? A recent World Bank report estimates it at about \$50 trillion, with the U.S. representing about 25% of the total with Japan next and China following but growing. Japan is expecting GDP growth of only 1.3% this year while South Korea grows at a 4.8% rate. Russia continues to grow its economy at a 7% rate, but inflation is at 11.5%. Nevertheless there are export opportunities in many manufacturing industries. South Africa also is an opportunity for many countries and industries as its markets expand and grow.

TRENDS: Coincidental with our 100th issue is the 40th anniversary of the landmark movie, “The Graduate” with its amazingly memorable line (known both inside and outside our industry) : **“One word: Plastics”**. For our readers we are pleased to present the link to that scene on our website as well as the following link to You Tube where it appears: <http://www.youtube.com/watch?v=PSxihhBzCjk>

Over the past 100 issues, we have commented on Trends in over 400 pages of content and over 160,000 words, including almost 100 Industry Interviews. The most powerful trend of all has been the amazing growth of our semi-finished plastics shapes industry...probably over 160% compounded sales growth and almost 100% profit growth for most companies, both manufacturers and distributors. Another trend of course has been the power of technology and its drive to higher productivity for all factors...whether it be tracking customers, inventory, applications or aiding in more intelligent pricing in the market place (see the Laird Plastics story at the NAW meeting summary above).

OUTLOOK EUROPE: ...by Chris Parry, our Special Correspondent, embedded in the U.K.

The recent decline in the £sterling relative to the \$US and in particular to the stronger Euro is proving a boost to UK plastics manufacturers in gaining business, particularly in mainland European markets. However, the other side of this particular coin is that for those who are importing raw materials and/or semi-finished products into the UK the currency change will both squeeze margins and jeopardize competitiveness. This will be compounded by a background of the plastics material price increases that are forecast during 2008. The current credit squeeze, and the fall in both consumer and investor confidence is likely to result in more UK companies following Global EPP into administration in the first part of 2008. Spanish PET pharmaceutical packaging producer EDP, with production facilities in Valencia and Zaragoza, Spain and Buenos Aires, Argentina, has been acquired by the German pharmaceutical packaging group Gerresheimer. Swedish sheet extruder Arla Plast has added a second extrusion line for multi-wall polycarbonate sheet at its plant at Kadan in the Czech Republic. The Kadan plant's capacity now is 5000 – 6000 tpa. Arla Plast is also planning to install a further solid sheet extruder at its Swedish plant in Borensberg which will add to both PC and PETG solid sheet capacity. The first EPSE, (European Polycarbonate Sheet Extruders), award in the Best Project category for the use of polycarbonate has been awarded to Mark Crain of HOK Sport Architecture for the creative use of profiled polycarbonate sheet on Arsenal Football Club's, Emirates Stadium roof. The failure of Nylacast Materials only three months after being re-launched as Global EPP, pushed extruder manufacturer BM Plastics Machinery into administration.

OUTLOOK ASIA: by Mal Binnie, Special Correspondent, embedded in the Pacific Rim

Chinese New Year starts 7th February, the year of the Rat. Kung Hei Fat Choi.

Remember that many operations in China, Taiwan, SE Asia will close for the holidays, anything from 5 to 14 days. In fact with the severe winter weather in China travel to work and transport of goods has already been disrupted. Tianjin Dagu Chemical Ind. Co has announced plans to build 2 ABS plants in Tianjin with a combined capacity of 900 million lbs. The proposed ban on certain gauge plastic bags in China will probably result in China making their bags thicker.

Asia Poly Holdings Malaysia who lost its plant in a fire in December has indicated that they expect to be back in production in Q3 2008.

NZ entrepreneur continues to grow Rank Group Ltd by acquiring Alcoa's packaging and consumer business to add to the current holdings of Carter Holt Harvey, SIG Holding AG and Evergreen Packaging. Australia lost a plastics pioneer on 29 December 2007. He was born on 10/9/30 and spent his life following in his father's footsteps at UNASCO Pty Ltd, a major producer of PTFE shapes.

Personally, I met him back in the early 70's and remember his business ethics, energy and that he traveled widely setting up agencies for the products he manufactured. He will be missed.

Lydia Swan Marketing Manager of Mulford Plastics introduced their new look Logo to the market. Refer to their web site www.mulford.com.au for details.

Mulford International Pty Ltd (prev Royalplast) located in Singapore is the new name for the Holding company of Mulford Holdings ANZ, Mulford Engineering Plastics and Alsynite Roofing Products. India will see the start of the JV with Mulfords and its Indian partner in Pune and is expected to be operational in May 2008. Business Development Managers focused on product specification are to be located in Mumbai, Chennai, Bangalore and New Delhi. Products will include Bayer PC Film and Sheet and Kydex products

for the expanding Indian Transportation market. Directors of the Company will include Arnold J Mouw and Ian Grant.

Michael Catchpole who recently left his post as CEO of PACIA has stated that the biggest challenge facing the Australian/NZ plastics industry will continue to be low cost Asian producers. Sabco signs JV agreement with Sinopec for production of ethylene derivatives plant, including PE in China.

ASIAN TRADE FAIRS - 2008

- 21 - 24 February Plastics 2008 Chennai India
- 27 - 30 March Koplak Goyang Korea
- 17 - 20 April Chinaplas Shanghai, China
- 13 - 16 May Vietnam Plastics Fair Ho Chi Minh City
- 26 - 29 May Aseanplas Singapore
- 19 - 22 June Interplas Bangkok, Thailand

PRICING: DuPont has taken acetal prices up 15 cents per pound and BASF has raised its nylon 6 and acrylic monomer prices...both in North America. Other resin prices climbing at single digit rates are the polyolefins' – and other resin pricing outlook in a word...higher! As a precursor of resin prices for the balance of 2008, Benzene prices are predicted to climb for the first three quarters of 2008, eventually leading to higher PC prices as well as some other bellwether resins.

MANUFACTURER/DISTRIBUTOR BRIEFS: Primex introduces a line of color, color effects and mirrorized HIPS sheet, called Luminique. Sabco IP is producing some of its resin lines from renewable resources, such as Valox IQ from recycled PET bottles. Their Cycloxy thin wall sheet is increasingly seeing applications in CT scanners and other medical equipment...new R&D facility opens in Canada. Sheffield Plastics Makrolon AR1 used to produce light-weight level 3 anti-ballistic glazing...claims 25-30% less weight. Spartech's new CEO, M. Odaniell buys 40,000 shares of company's common shares. Penn Fibre now stocking PEEK thin gauge sheet.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:

DuPont opens PTFE plant in China. Saint Gobain buys IFK Isofluor, German flexible fluoropolymer tubing manufacturer. Artek adds UHMW sheet capacity. When industrial distributors McJunkin(M) and Redman(R) merged recently, the last contentious decision was whether to call the new entity McJunkin-Redman or Redman-McJunkin. Both sides decided on a novel approach to decision making: if the day the merger closed, the Dow Jones index closed with an odd number it would be M-R; if an even number, it would be R-M. Great decision making!

INDUSTRY INTERVIEWS: Editors Note: In November 1999, 100 issues ago, our first Industry Interview (reprinted below) was with Dr. R. Stanley Tam, founder of UNITED STATES PLASTIC CORP., who was celebrating the company's 50th anniversary in a few months from then...in 2000.

At that time, US Plastic was printing in excess of three million catalogs per year and receiving 80% of orders by phone – with 10% by fax and 10% via the internet.

GLOBAL PLASTICS LETTER (GPL): How long have you been in the plastics business?

STANLEY TAM (ST): Next year will be our golden anniversary - 50 years

GPL: What got you started selling plastics?

ST: We had always been in the silver refining business and at one of the conventions, I saw the first plastic tank being manufactured in the U.S. - and bought it. Our customers saw it and said that was just what they needed to store chemicals. We bought more of these tanks and re-sold them. Then our customers asked us for plastic valves, tubing, piping and other plastics. The business grew so fast that we incorporated a new company, United States Plastics in 1950.

GPL: Why do you sell only by catalog?

ST: We had always sold our refined and smelted silver by direct mail, so I had the experience.

GPL: *How many catalogs do you print per year?*

ST: In excess of three million.

GPL: *How big is your facility and your retail store?*

ST: Our facility in Lima, Ohio is 243,000 sq ft on 5 acres and our retail store is 28,000 sq ft.

GPL: *What was your most unusual sale?*

ST: In 1998 we sold over 80,000 plastic boxes for Beany Babies and this year we've sold a trailerload of buckets and barrels for people stocking up for the Y2K event to hold drinking water and food.

GPL: *How is this business most likely to change in the next century?*

ST: We used to receive orders 90% by mail, 10% by phone. Today it's 80% phone, 10% fax, 10% Internet. It's changing so rapidly in favor of the Internet that it could reverse our current phone experience.

GPL: *What advice would you give someone starting out today?*

ST: Provide SERVICE or you won't survive.

GPL: *What is your outlook for business next year?*

ST: We think it's going to be good and are planning for that, in fact we're adding 17 new pages to our 2000 Catalog.

GPL: *What is your motto?*

ST: Never borrow money and be aware of miracles! We built this business with no debt and when we needed money to expand the business, being in the silver refining business, we watched the silver market multiply 10 times in a very short time we sold our silver stocks and got the funds to expand... and I consider that to be a miracle!

INTERVIEW WITH: Wesley(Wes) A. Lytle, President United States Plastic, who succeeded founder R. Stanley Tam. We interviewed Wes by email at his office in Lima, Ohio. Wes married the second daughter of Stanley Tam and has been with U.S. Plastic for more than 35 years.

*Q. In November,1999, Stanley Tam, in our first **INDUSTRY INTERVIEW**, gave us some idea about the activities of your company. How many catalogs do you now print each year? How do you receive most of your orders...phone, fax, email and what percent of each?*

A. Last year we printed approximately 2.6 million catalogs. While that is fewer than 7 or 8 years ago, we now print only one title instead of two as we did then. Approximately 40% of our orders come by phone and 40% by the Internet with the balance of 20% by FAX.

Q. How was business in 2007?

A. Our sales for 2007 were good although the housing and credit crunch that is pervading our country began to have an impact towards the end of the year. While we were ahead of any other year, the margin of difference was less than in preceding years.

Q. What do you attribute these results to?

A. With the exception of certain sectors, the economy has been fairly strong for the last several years allowing us to grow with it. Additionally, we have been very proactive with customer service hoping to build better customer relations.

Q. What did you do differently last year?

A. Experience and a better understanding of what works and what does not has helped us be more efficient and more effective with our advertising dollars.

...to be continued in the March 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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