



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JANUARY 2008

Dear Colleague:

Economic extremes evident early...2008 begins with uncertainty and turmoil. Markets are roiling and the psychodrama unfolds, affecting confidence in the outcome. The expected recession of 2009-10 (post election) may be arriving earlier. Plan accordingly, since liquidity in global markets may degrade, further slowing growth.

We hear talk of recession looming in 2008, yet the experts are conflicted in forecasting such a drastic scenario – rather an economy that could show early recessionary signs, but that if dealt with wisely and aided by good fortune without negative geopolitical events, will resist falling.

Recessions are like hurricanes – they range from ordinary to catastrophic. The ordinary ones are part of the business cycle: they happen when business inventories exceed demand, and companies cut production sharply until the excess inventory gets sold. The Category 5 kind happens when demand itself collapses – when consumers stop spending and businesses stop investing.

But what if we're headed for stagflation? ...we haven't seen this since the early 70's when the Arab oil embargo caused spikes in oil prices and long lines at gas pumps – sounding eerily familiar as we enter the last third of the decade.

Energy prices concern you? OPEC didn't hand out any presents to oil users because the weak dollars they get for their oil need to be offset...so don't expect crude to fall below \$80/barrel during the winter, in fact it is now flirting with the \$100 level again. In fact, look for an upswing in the spring or sooner, to the \$100 plus range, with gasoline staying above \$3.00/gallon for all of 2008 and even closing in on \$4.00 if any unusual geopolitical event occurs in the Middle East. Inflation in everything energy related looms.

Good news for small and mid-size U.S. and European Union companies: Beijing's big tax breaks for China-based producers ceased Jan 1, 2008 under a WTO settlement. This eliminates Chinese producers selling their products below the cost of the raw materials and thus making other countries' products more competitive in global markets.

U.S. exports are expected to increase 9% in 2008, down slightly from the 12% spurt in 2007.

Expected to benefit especially, are petrochemicals, including plastics of course as well as aircraft and auto parts, pharmaceutical, IT gear and engineering services – all industries to be allied with.

On the other side of the ledger, foreign investment in the U.S. continues strong and steady, with many of these firms absorbing energy-induced inflation in order to maintain market share.

TRENDS: A new report on Plastic Sheet by Fredonia Group, is projecting that US demand will grow 3% annually to 7.7 billion pounds by 2011, valued at \$7.2 billion. PS sheet will remain at 55% of all demand; however PP will exhibit the fastest growth, followed by PET, MMA and PC sheet...the latter two affected by continued growth in glazing applications. In this study “plastic sheet” is defined as having a thickness greater than 12 mils. Similar studies have been available from BAI as well.

**OUTLOOK EUROPE:** ...introducing our newest Special Correspondent, **Chris Parry** – embedded in the U.K. Chris, a Chemical Engineer, now heads a consulting company, Rosewood Associates of Buckinghamshire, UK. Prior to that he was Managing Director of Cadillac Plastic Ltd for 13 years, following a 4-year stint with GE Plastics. At Cadillac he was responsible for their business in UK, Netherlands, as well as Germany, France and Spain (jv with Roehm). Chris's first report:

### **European View**

Firstly, I would like to wish everyone a happy and successful 2008. Following in the footsteps of John Douglas will not be easy, but I hope that my contributions from time to time will be of interest. Even more so than in previous years, Europe closed for business during the Christmas/New Year period, with many businesses closing from 20 December to 7 January.

A substantial new investment in PET sheet and film extrusion has been made by PFF, the Keighley, UK, specialist packaging manufacturer. Aimed at the thermoformed food packaging market, the product will be co-extruded with a 90% recycled PET core and is claimed to be the first recycle-based PET food grade product by having a capping either side of virgin PET resin.

Eastman Chemical is set to sell their Dutch and UK PET business to Indorama Holdings of Thailand for a reported price of \$65 million.

German metals giant ThyssenKrupp has in the second half of 2007 established their first specialist plastics distribution operation in the UK. With 2 initial branches in Bristol and Birmingham, ThyssenKrupp Plastics Ltd joins its sister mainland European companies, ThyssenKrupp Schulte and TRK, (Thyssen Röhm Kunststoffe), in being part of the largest semi-finished plastics distribution network in Europe.

Sabic IP is to close its ABS plant at Villers Saint-Sépulchre in France and concentrate all ABS operations at their Grangemouth, Scotland facility.

**OUTLOOK ASIA:** ...by **Mal Binnie**, our special correspondent, embedded in the Pacific Rim, reporting from Australia.

Happy New Year, Kung Hei Fat Choi.

2008 will undoubtedly produce many new challenges and changes in the Asia Pacific area. New Labour Federal government in Australia, Pakistan unrest destabilizing the area, continued Middle East problems and yet rapid industrial growth continues in China and India. However all forecasts show continued growth in the demand for plastics.

Plastics distribution operations in Australia continue to move towards overseas ownership. Dotmar Engineering Plastics announced that Metal Manufacturers Australia had acquired the company. MM Australia, who in turn own Vinidex Plastics, are in turn owned by Blackfriars USA (a private company). Blackfriars also own Laird Plastics, Port Plastics, Modern Plastics, Calsak Plastics USA and Amari Plastics UK.

Since GE Plastics (now Sabic) took out Cadillac Plastics and Commercial Plastics the plastics distribution world has changed substantially.

Mulford Plastics (Royalplast), who were rumoured as a bidder for Dotmar, have continued to expand their NZ Engineering Plastics business through their earlier acquisition of Ludowici NZ. They also report a record year for their ANZ operations. It is also reported that their Mulford/Alsynite expansion into India is on schedule and they have appointed Stephen Hardy as GM for Alsynite Division. Stephen was previously Nat Sales Mgr for Laserlite Bayer.

China: New annual leave entitlements have been passed into law and operate from January 1, 2008. More details on these changes will be in February issue. But note that additional holidays for Tomb Sweeping Day, Dragon Boat Festival and mid Autumn Festival have been added.

Asia Poly Holdings in Malaysia have suspended operations, indefinitely, since a fire over Christmas swept through their plant damaging at least one third of the total area. Sheet acrylic is one of the major exports affected.

PVC global consumption pattern is shifting towards Asia, which alone accounts for 40% of the total consumption of PVC in 2006. China contributed almost two thirds of Asian consumption...about 27% of Global consumption. On the other hand, the Indian petrochemical industry is poised for a double-digit growth from 2006-2011, with PP leading the way.

PVF PERSPECTIVES: A new system in Asia, when attached to the conventional extrusion system can change pipe dimensions without stopping the line...by the push of a button.

PVC pipe came into use in the 1960's...still the leading resin, followed by PE. ABS, PP, CPVC, PEX, PVDF, and PTFE are also in use for specialized applications utilizing their properties

PRICING: Solutia raised prices on nylon 6/6 by 10 cents per pound. Other prices, including PS, PVC, PP, and PE were fractionally higher in December and with crude oil hitting the \$100 mark as of this writing, we expect 1Q 2008 prices to continue to escalate – forward buying prevails and will certainly affect the shapes markets as buyers hedge as much as their liquidity permits.

MANUFACTURER/DISTRIBUTOR BRIEFS: Lucite International announces exclusive distributor arrangement with “e-distributor” Chempoint.com for their acrylic resins in the U.S.

Victrix PEEK film, called Aptiv® is being used to mark labels in medical laser as well as food and beverage industry applications.

Job cuts are announced at Dow Chemical, and at Noland (HVAC distributor).

SABIC Innovative Plastic's (SIP) launches new website: www.sabic-ip.com - their commitment to the Turkish market is expected to be strong with triple digit growth over the next 3 years.

GS Sales offers a useful HPM trade name cross reference chart at www.gssales.com

Eastman Chemical touts Tritan® copolyester resin with improved properties, targeted at PC.

Makrolon® PC from Bayer invades automotive glazing market with lamella roof.

#### MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Cereplast expands production in bio-plastics at Indiana plant – biopropylene emphasized.

Chevron Phillips and Saudi Industrial, in a jv, are building ethylene cracker plant in Saudi Arabia – eventually will produce PP, PE and PS resins on a huge scale.

Arkema and its Altuglas unit acquires the PMMA sheet and block production facilities of Repsol YPF in Denmark and Italy – annual sales are reported at 30 million Euros.

Dow Chemical and Petrochemical Industries Inc. (PIC) owned by the government of Kuwait are starting a jv valued at \$19 billion. Dow will sell PIC a 50% interest in its PE, PP, and Polycarbonate businesses to form this giant global venture, headquartered in the U.S.

Rexel of France, the globe's largest electrical distributor, bids \$4.45 billion for Hagemeyer, Dutch based, but with an extensive U.S. presence and competitor of Grainger and others.

INDUSTRY INTERVIEWS: ...concluding our interview with **Bernie Konrady**, President/Owner of Konrady Plastics, Portage Indiana (not Gary, as previously reported). He is a graduate of the University of Northern Colorado and purchased Nering Plastics in 1981 to form his present company after several years with Inland Steel and in a family heating oil distribution business.

Q. What is the biggest issue facing the distribution/fabrication business today?

A. *Without a doubt, the biggest challenge we are all facing is meeting our customers growing and ever changing requirements for the materials and parts we supply to them. The issues are as diverse as meeting a customer's 'JIT' system, another customers 'bar code' system, or another customers push to create better efficiencies in the distribution chain or machining processes to lower their costs. Constantly adapting to our customers increasing, ever-changing demands is the battle we all face in the Supply Chain.*

Q. If you had unlimited resources, what change would you make in your business?

A. *If you're successful today, then "financial resources" are not an issue, there are plenty of banks willing to lend. Time and People resources are the biggest limitation. So, with unlimited resources, I'd start up one heck of a Human Resources Department to help add to the great people I already have working at Konrady Plastics.*

Q. When interviewing potential employees, what is the best question to ask them?

A. *"What is it you want to do with yourself"? Then I consider whether joining my company can help fulfill part or all of that desire. The 2nd best question is "May I see your previous year's W-2"?*

Q. Where did you go on your last trip and what was it like?

A. *My wife, my youngest daughter, and I traveled to Washington, D.C. this past July to visit our 21 year old daughter who was doing a college internship there. It was short but great. No car! Traveled around DC by their metro system everywhere. My daughter was our guide and she had really learned her way around. I'm very proud of her. Just a few highlights: walking the National Mall, the Lincoln Memorial, the Vietnam Memorial, the World War II Memorial, the National Art Museum, Georgetown University, great restaurants, the Potomac River, and the White House. These words come to mind: Democracy, History, and Power.*

Q. If you could have any other job in the world, what would it be?

A. *That's an easy one Mel - Professional Surfer! I love to surf, I'd be getting paid to do it, and I'd be traveling. Plus, people would recognize who I am in the line up, so they would stay off my waves. Oh Yeah! Now that's what I'm talking about.*

Q. If you could choose someone, living or dead, to have lunch with, who would it be? What would you ask them?

A. *Abraham Lincoln. He led the greatest country in the world during its most tumultuous time. We were literally torn in half, brothers killing brothers. Yet, Lincoln was steadfast about the injustice of slavery, as well as, reuniting the nation as one after the war with out taking vengeance on the Confederacy. The obstacles he faced, the heart break for his people, the hatred of many, but he led us through the Civil War and we are a better nation for it today. I am reminded that my problems are small compared to his. I'd ask President Lincoln how he persevered.*

Q. Name one talent you wish you had.

A. *To be an artist; whether it is a composer, actor, or painter. I enjoy the Arts. I'm always amazed by the ability of a talented artist who can conceptualize, create, and convey a thought or emotion to another human being.*

Q. What would you consider your greatest accomplishment?

A. *Well, the standard answer is 3 great kids and a good, long lasting marriage. My wife, Sue, is the main reason for all that, so I guess finding a wonderful person in my wife, and me having the good sense to know it, was a great accomplishment. I can't take the credit for that either, that was God's doing. So maybe, it is the building of an enterprise that has given a lot of people good jobs in a clean, safe and stable environment for 26 years.*

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.

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