



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JANUARY 2009
OUR TENTH YEAR

Dear Colleague:

Hopeful hedging heightens hyperbole...this recession is poised to resemble the 1981-82 downturn, in length and severity. More industries (not just manufacturing), including distribution, are feeling it. What is also breaking new ground during the current global economic scenario is the capital liquidity shortage, which acts as a tide raising all boats. The outlook is for a long and difficult 2009, with some possibility of the beginnings of a recovery in the second half. Business cycles are omnipresent and this one will begin to exhibit its inevitable rise. The deflationary environment is causing bargains in all prices... commodities, equipment (low interest rates causative) and companies. Thus the global deflation we're seeing is seeding the recovery, albeit slowly ...this is our optimistic view of the New Year just beginning!

Expect to see another surge in mergers and acquisitions in our industry (both in the manufacturing and distribution sectors) as small and medium companies continue to struggle. Their buyout price becomes a “bargain”...of course limited somewhat to the acquiring company's ability to raise capital in this liquidity frozen climate.

Weaker U.S. exports will hurt many sectors including plastics as trade shrinks 2.1% globally and recessions grow in U.K. Euro zone and Japan...China will continue to grow although at a lower rate (7%) with India just behind. Spending on R&D will also enhance global economies in the next decade...countries spending the largest percent of their GDP are Israel, Japan, Finland and South Korea. Other countries are ramping up their spending, including India, Singapore, Brazil, and of course China. Productivity always matters and the leaders are U.K., U.S. and Japan.

Oil prices are set to continue to slide to about \$35-\$40 per barrel this winter before heading up this spring and ending up back at the \$80 mark at the end of 2009...possibly going over \$100 in 2010, based on rising consumption. Of course this augers badly for our industry as a return to inflation will require planning for inventory now. Inflation will resume in 2010 however the extreme volatility in oil prices and related polymers, somewhat fueled by speculation, will not repeat...additional optimistic news.

TRENDS: Since global economies seem to be as much emotional processes rather than rational models, we expect to see more political initiatives urging non-panic actions. Since the monetary policy of most governments of injecting capital is not working well or fast, the next step (and there are only two basic actions) is a fiscal/political policy of spending. The interplay of fear and faith is expected to result in faith winning out and thus beginning a recovery in late 2009, in our view. An excellent primer on our current economic crisis and how to overcome it is the movie “It’s a Wonderful Life”...view it and see how feeling good about the future can drive a recovery.

The year 2008 saw significant sales increases in plastics distribution (manufacturing had smaller growth) and we are now estimating (our own numbers, not company provided) that the top global semi-finished shapes distributors are: Blackfriars Group (includes Laird, Amari, Port, Calsak, Vink and several major PVF distributors) exceeding \$1.5b; Thyssen Krupp Materials at \$1.0b; SABIC Polymershapes at \$500m and Piedmont Plastics at \$250m.

Resin prices, as well as commensurate shapes, are plunging as resin producers, cut jobs (Dow and DuPont), or contemplate bankruptcy (Lyondell Basell) or mergers. Meanwhile the Dubai Commodities Exchange institutes PE and PP futures trading. Dow’s jv with Kuwait is cancelled by Kuwait and Dow may take legal action.

Altuglas, subsidiary of Arkema, develops new PMMA acrylic resin grade containing 20% carbon derived from biomass renewable raw materials. Acrylic sheet from sugar (actually a bacterial enzyme is used) is a recent discovery at the University of Duisberg-Essen in Germany...another attempt at a “greener” product for our industry – reported in MIT’s *Technology Review*.

Europe is outpacing North America in PC rear and side windows as well as panoramic roofs in the auto industry. Weight reduction of about 25 pounds per vehicle, with a simultaneous 0.3% fuel economy savings is claimed. Latest to join the trend is Renault, joining Honda Europe. In the U.S. only G.M.’s Corvette has adopted PC for a panoramic roof application.

Plastic processing in Central Europe (Poland, Czech Republic, Hungary and Slovak Republic in that order) continues to grow...4.28 million tonnes in 2008).

OUTLOOK ASIA ...by Mal Binnie, special correspondent embedded in the Pacific Rim

Happy New Year... Kung Hei Fat Choi, from the Pacific Rim and all best wishes that 2009 will bring a return to prosperity and growth. In Asia we are entering the Year of the Ox/ Yin Earth and there is an interesting confluence with Chinese New Year and Australia’s National Day both falling on 26th January. The effect of the market slowdown in USA, Japan and Europe has hit all manufacturing sectors of the plastics industry in China, but for the rest of the world to recover a strong Chinese economy is critical. In China PVC output dropped 33% and half of the manufacturers in China ceased production. Teijin has reported that its Dupont joint venture PET film line in Ohio will be closed late January 2009. BASF will temporarily close plants in Nanjing, China and Kuantan, Malaysia due to reduced demand. Another 78 plants worldwide will be affected.

Mulford Plastics, New Zealand continues to grow rapidly and are adding a 600 tonne injection moulding machine to enable their export of a 15 part welding helmet that was designed and developed in NZ. Starleaton Digital Solutions have been appointed exclusive distributor for the revolutionary repositionable solvent film by Hydrosal Taklite. The film employs a unique suction cling form of nanotechnology. Rumours currently abound in Australia regarding ownership changes in the engineering plastics market which if confirmed would substantially change the distribution market. Also it is reported that Sabic Innovative Plastics (formerly GE

Plastics) will withdraw staff and service Australia/NZ from Singapore, this is in line with their reported cost cutting and their new marketing model. Laurie Green of Cut to Size Plastics continues his expansion and will be interviewed for a future edition of this newsletter. Agfa Graphics Australia has announced the appointment of Brett Turner to its inkjet division located in Sydney. Evonik is opening an integrated methacrylates complex in Shanghai. It has started production of Plexiglass molding compounds at the site. Hyderabad India, which is designated as a research hub, will have Dupont opening a “Knowledge Centre”. It will have 180 scientists and centres specializing in biotechnology, materials research and global engineering.

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

A happy New Year to everyone, and let’s hope that 2009 yields a modicum of good news. This month is also the first anniversary of my monthly European contribution to the Global Plastics Letter. Despite my intention to focus on the good news, it would be remiss of me to ignore the continuing weakening of manufacturing industry in Europe, particularly the automotive sector, where much of the growth in plastics has been found in recent years. The plastics industry in Western Europe continues to follow the general downward trend of manufacturing. Contrary to the old American advice to “go West young man”, the new European adage is to “go East young man”- Eastern Europe plastics is growing.

One of the plastics success stories of the past 20 years or so, Brett Martin the Belfast, Northern Ireland based sheet extruder, has announced that it may need to make around 50 redundancies across its plants in Northern Ireland, England, Scotland and The Netherlands. From being a manufacturer of (pretty “low-tech”), corrugated GRP roof-lights in the 1960s, Brett Martin has developed into one of Europe’s leading extruders of initially corrugated PVC sheet and then corrugated and multi-wall polycarbonate sheet. Defying the true economics of recycling, (at least at the once again acceptable price of oil), Kaysersberg, the extruder of Twinwall polypropylene sheet, has installed a new re-grind/pelletization facility specifically for the recycling of materials collected from their customers. Depending on the cleanliness of the product, the pelletized recycle material will either be re-extruded into grades of Correx sheet destined for the packaging or concrete shuttering market, or will be sold.

PRICING: In a word: *plunging in a free fall*... across the board, led by commodities. Levels are almost back to 2007 prices as deflation encompasses our industry. Even phenol (affecting BPA, and thus PC) is down 49% to 2002 levels. Stay tuned.

MANUFACTURER/DISTRIBUTOR BRIEFS: Prisma Plastics International, Canadian based partnership, consisting of Redwood Plastics and Groupe PolyAlto is continuing its initiative. Righton Ltd, U.K. based plastics and metals distributor, now owned by U.S. based Colburn Group, also owners of Blackfriars and thus Dotmar in Australia as well as Guillevin (PVF), Canada and Edmundson Distribution (Vink), U.K. Quantum Polymers, is start up company in the U.S. for rod and plate in HPM’s and EPM’s with Don Drew and Ellen Sutton Witherspoon as key employees. Several manufacturers (Palram, Rochling, etc.) are newly offering cut to size and run to size products. Gehr Plastics wins Bioplastics Award as plastics processor in Europe. Plexiglas® trademark celebrates its 75th anniversary – Evonik Rohm GmbH is successor company owning the mark. SABIC Europe now offering UHMWPE resins. Acrylite Heatstop from CYRO Industries is a new infrared-reflecting PMMA sheet that lets sun in, keeps heat out. Plastifab, Canada, adds C.J. Garvey Assoc. as Manufacturers Rep in S.W. U.S. and appoints new production manager, R&D head as well as sales and marketing head for Quebec province. New CEO’s announced for Nova Chemicals and Eastman

Chemical. Dow closes 20 plants globally and Dupont shuts 100 plants. PE resin producers (Dow, Exxon Mobil, Nova and Formosa) attempting to stay PE resin prices from falling further. Georgia Gulf cutting operations in its PVC business.

NOTE: Bill Shields contributed to this section.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES: Ticona adds substantial Vectra LCP capacity in China, as well as UHMW and acetal – to come on line in 2010. Also expanding in Germany with new 140,000 tonne annual capacity for acetal. Ashland Chemical buys Hercules Inc. in a \$3.0b transaction uniting these specialty chemical producers. Evonik increases Destek Ltd.'s PMMA extruded sheet capacity in Russia, by threefold Also in Russia, Weltplast builds two PVC profile and sheet plants due to start up in 2010.

INDUSTRY INTERVIEWS: ...concluding our interview with **Sebastian Gehr, President, Gehr Plastics Inc. USA**. Sebastian Gehr, born in 1975, and together with his sister Annette recently joined his fathers company, GEHR Kunststoffwerk founded in 1932. His father Helmut remains CEO as 3rd generation member and Sebastian became President of GEHR Plastics, Inc., USA this week.

Q. Where will your next global assignment be? Asia?

A. *Hey, let me settle down in the States first. ☺ Though I love Asia and speak a little Mandarin, it's too early to tell.*

Q. What do you consider your greatest accomplishment?

A. *Passing my driver license test in China.*

Q. If you could project ahead 10 years, what would our industry look like?

A. *I am sure America will deal with an even greater Asian influence making our industry highly competitive. We will surely find ways of preventing our business from becoming a commodity.*

Q. On a personal note, if you had to come back as someone else, who would it be?

A. *For the sake of mankind and being an in-the-flesh ECOGEHR, I truly wish for the degradation of my corpse...*

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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