



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JULY 2006  
NPE 2006 ISSUE

Dear Colleague:

Recurring recession rumors – once again we are hearing concern that the “R” word will be spoken once again in late 2006 and into 2007... perhaps brought on by a fall off in forward buying for most of this year, hoping to hedge against price increases.

Slowing growth in many industrial sectors seems to be having a dampening effect on future spending plans, thus impacting the MRO markets that are key to our industry.

Of course the continually increasing demand for energy on a global basis is fueling (pardon the pun) inflation and adding constant upward pressures on pricing and eroding profits with added expenses, not so easily passed along to customers.

It's a new era for alternative energy as fossil fuel prices are at record-high levels. Thus we are seeing unprecedented interest in “green” power such as solar, ethanol and wind. Technologies such as biodiesel, fuel cells, advanced solar cells, and fuel made from garbage, sewage and plants with no other commercial use. Solar power is poised to achieve the quickest growth with Ethanol close behind. Incidentally, the materials used in the distilling process of converting corn to ethanol such as stainless steel and some *corrosion resistant plastics*, represent new application opportunities. Similarly, windmill blades are backordered for two years and the bearings and materials used here represent another growth market. The only caveat here is whether this is a short term, political, and public relations movement that will recede if oil prices back off – or is this a sea change and – tipping point that will impact global economies for the duration of this century? We believe it will result in the latter and will change strategic thinking and planning for the raw materials suppliers to our industry as well as how distribution markets to its customers (think tactical marketing similar to minority and/or small business set-asides).

## **NPE 2006**

NPE 2006 had a 9% increase over 2003 attendees, or 64,451 visitors, with a 33% increase by international visitors. Exhibitors totaled 1850 companies, with the largest increase coming from the international sector, mainly China. First time exhibitors were 38% of the total and total exhibit space was almost 1 million square feet – a bullish statement for our industry.

Probably the most significant change now occurring in our industry were the ground breaking announcements made at NPE 2006 (see below) that DuPont will be manufacturing two engineering plastics made from bio based resins (corn sugar), instead of petrochemicals in 2007. These include Sorona PTT and Hytrel TPE, made from DuPont's Bio-PDO intermediate, produced from corn sugar using a proprietary fermentation process using renewable resources. Sorona PTT exhibits properties similar to PBT and is expected to find applications in the automotive, electrical and general industrial market segments.

Also, in what may be one of the most significant ventures aimed at easing the world's crude oil shortage, DuPont announced a partnership with BP to develop advanced biofuels. The two have leveraged DuPont's

renewable fuels technology and BP's bio-manufacturing and marketing expertise to develop what is called biobutanol. This is converted from ethanol and designed to be blended with gasoline offering better fuel economy with environmental benefits – another step along the road to reducing demand for fossil fuels.

NPE Exhibitor Briefs: Bayer Materials Science and its Sheffield Plastics unit had the largest materials sector exhibit (GEP did not exhibit this year) and debuted many new PC resins and PC films, including a start up company (Lyttron Technology GmbH) for production of electroluminescent films, targeted at the greenhouse market. Many of its PC films now offer special effects, including colors and patterns. (For more on Bayer/Sheffield, see our interview with Rainer Schorr, Head of Polycarbonates, in our August 2006 issue). Automotive glazing utilizing Makrolon was also a key application.

Spartech announced a new multi-layer barrier sheet utilizing HMWPE and Acrylic/ASA/ABS sheet, which is listed as weatherable with a clear gloss cap.

RTP's new sheet line includes conductive, structural, colors, TPE, flame retardant, high temperature, fiber reinforced sheets up to 60 inches wide and gauges from .030 - .300 inches.

Alibaba.com offers free sourcing information for buyers of plastic shapes and resins made in China. DuPont now makes nylon resins available globally – the only such producer.

Jack Welch, former CEO, GE, among those inducted into Plastics Hall of Fame – Charlene Begley, CEO, GE Plastics makes award and keynote address with insight into future products and directions – hope to have an interview with her in a future issue.

RheinChemie, a Lanxess/Bayer Company offers additives to enhance properties of cast nylon.

Dow introduced INFUSE Olefin Block Copolymers – new olefin elastomer line.

Hanser Gardener Publications offers an unprecedented catalog of books for sale on every conceivable plastic subject – a worthy addition to all company's resource capabilities.

Asahi Kasei Plastics North America adds acetal rods and sheets to its product offerings.

Basell continues to expand its most comprehensive PP resin product line as does Honeywell in its nylon 6 portfolio. Nova Chemicals introduces Zylar 631 – impact modified clear acrylic resins.

Degussa's CYRO Industries unit celebrates its 30<sup>th</sup> year in existence – at the time of its formation, gasoline cost 59 cents per gallon in the U.S. The price of Acrylite sheet has not kept up with gasoline's inflation, especially in this last year.

PRICING: Some important commodity price trends (courtesy of Propurchase.com) are as follows: Benzene is up 11.7% (vs. last month); ethylene monomer down 2%; HIPS up 1.5% and PVC unchanged – metals are mostly up. Closer to our segment of the industry, Arkema raises Nylon 11 and 12 from 4 - 8%, dependent on grade, while Nova seeks increases for PS. Ticona takes up PPS, PBT and PET prices about 10%, while Quadrant raises stock shapes prices across the product line up to 8.5%. All polyolefins are up; in fact only PC is unchanged this month.

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

Plaskolite Inc., in a major move in plastic mirror, has acquired Bunker Plastics in Texas – this is the sixth mirror manufacturing purchase for Plaskolite, which gains them the position of number one MMA, PC and PET substrate sheet mirror supplier in the world. Unique Metalizers in Canada remains independent.

Solutia Inc. announced its boosting of its annual capacity of nylon 6/6 resin by about 32,000 metric tons, to respond to significant worldwide demand, especially in China.

Lehigh Valley Plastics, 35 years old, is planning a \$7.25 million expansion product, consolidating its operations into one 50,000 square foot facility in Bethlehem, PA- currently running at \$17 million sales annually, with 100 employees. Was acquired last year by private equity firm.

Arkema to boost plant capacity by 2000 tpa in the U.S. for its Kynar, PVDF fluoropolymer.

Lanxess quadrupling ABS production in India by 2008 to 80,000 metric tons.

GE Plastics steps up expansion of its PC film capacity in Nansha, China for its Illuminex films.

Solutia increases nylon 6/6 capacity in its U.S. plant –adds 32,000 metric tons due to demand.

Home Depot Supply acquires Western Fasteners, and Cox Lumber continuing its rise in industrial distribution, focused on building materials and fasteners in this phase of their march.

(Note: For an update on acquisition multiples in the distribution sector, see the data displayed at: [www.curtisfinancial.com](http://www.curtisfinancial.com) and request a free subscription to *The Curtis Alert*)

Parker Hannifin buys Crane Company's Resistoflex Aerospace, maker of fluoropolymer lined hose, tubing and fittings – had 2005 sales of \$16 million, with 84 employees in Florida (US).

GE Plastics and Petrochina have formed a jv for building a PC manufacturing plant in China.

Sumitomo adds more MMA capacity in Singapore – producing 90,000 m.t. of monomer and 50,000 of polymer by 1Q 2008. Meanwhile–Honam Petrochemical of S.Korea and Mitsubishi Rayon of Japan will build a jv plant to produce MMA in S. Korea, operating as Daesan MMA.

Degussa to make PEEK and PES in China, in a jv with Jilin University.

Rhodia opens nylon resin plant in Shanghai, China.

#### DISTRIBUTOR/MANUFACTURER BRIEFS:

ZL Engineering Plastics introduces new internally lubricated Cast Nylon with superior friction properties... called ZL 1100T, it provides coefficient of friction of only 0.15.

Rulon finds itself in fishing reel components...supplied by TriStar Plastics.

Glass filled PEEK, as supplied by Victrex,LLC receives US FDA approval for food contact as well as entering the market for implants, replacing some titanium applications in Germany.

Heat shrinkable PEEK tubing now available from Zeus Inc. in Orangeburg, SC.

Sheffield Plastics has introduced a new Makrolon product that exhibits low flammability properties in PC sheet...Makrolon LF sheet is easy to form and has improved flame resistance.

Ticona, the global engineering resins unit of Celanese Corp. has relocated to new headquarters containing its research and development center – now located in Florence, KY.

Spartech reports that sheet and roll stock now represent 63% of its total sales – consolidating its manufacturing plants and adding polylactide products to enhance its environmental marketing.

Second Quarter sales of Spartech are reported at \$390 million – up from \$377 million a year ago.

Chevron Phillips Chemical Co. changes name of its Ryton PPS unit to Engineering Polymers.

Gehr Plastics expands its distribution base by adding Laird Plastics as authorized distributors.

Quadrant EPP develops new product – Nylatron 703 XL improves upon its NSM product by offering the added benefit of zero stick slip...finding use in Europe in crane booms.

Kydex GND sheet from Kleerdex Company is product of choice for military decoy flares.

PEOPLE: Heiner Markhoff named General Manager, GE Plastics, Europe. Alan Leung continues as VP GE Plastics, Pacific. David Williams re-elected President, European Plastic Converters in Brussels, Belgium. Barbara Arnold-Feret joins Enviro Plastics as Manager, Business Development. *In memoriam...* Ripley Gage, founder of Gage Industries, 85, in Oregon.

#### OUTLOOK ASIA – by Mal Binnie, Special Correspondent, imbedded in the Pacific Rim

The China economy will grow by 10% thru the rest of 2006 despite measures to cool it down according to Chinese Central Bank Governor Zhou Xiaochuan. Their Five Year plan showed growth of 7.5% and by any comparisons is significantly higher than the 3% of most developed countries. In addition the Chinese Central Bank has relaxed controls on foreign exchange accounts simplifying approval for foreign exchange payments which should aid the development of foreign companies selling products to China. The massive new Shanghai Southern Railway Station roof illustrates the continuing opportunity for plastics in the building market in Asia. This represents one of the largest single orders for GE Lexan Polycarbonate sheet ever received according to Frans van de Noort Asia/Pacific GM for Speciality Film and Sheet. The roof covers the upstairs departure area and is 300 metres in diameter. In addition quantities of GE Thermoclear are being used in the boarding platform covering.

Ben Q Taiwanese electronics maker is heading towards further growth in its consumer markets. New efforts are being directed towards consumer recognition, this is even after it appeared on the cover of Business Week magazine. The company has also won more than 130 design awards and has decided that further expansion will continue. A great opportunity for plastics suppliers.

Finding skilled workers in China is not that difficult but keeping them provides many challenges. Offers of doubling wages between competing firms is not a new event so compensation plans need to be carefully constructed.

What an opportunity if George Soros invests US\$200 million in Chery Automobile for expansion of their vehicle production and entry into the US market. This investment has been reported in the press and provides growing opportunity in China.

In Australia Queensland based Hughes Moulding and Hughes Graphics have been bought by Interleisure Sales. Hughes moulding is a major supplier to the framing market and Hughes Graphics represents overseas product suppliers such as Neschen to the Graphic Arts markets.

Mr Yung-ching Wan the Founder and longtime Chairman of Formosa Plastics stepped down from his positions on June 5. Mr Wang founded the Company in 1954 and built it into one of the world's largest suppliers of PVC with diversified holdings in many other plastics and products in the electronics industry. Mr C T Lee, currently President, will take over the Chairmanship of the Group and the Executive Group will take a larger role in key projects and investments so the Group will continue its growth.

GE Plastics has announced plans to build a new polycarbonate plant in partnership with PetroChina Co Ltd Beijing. Demand in China and Asia continues to grow rapidly for polycarbonate.

INDUSTRY INTERVIEWS: ...concluding our interview with Graeme Fraser, Principal, Prisma Plastics International.

*Q. Is this alliance likely to compete with IAPD and will its four members continue to belong to the Association?*

A. The alliance will not compete with IAPD and we will continue to be strong supporters of the association. IAPD has played an important part in Prisma. Mike, Marc and I have all held leadership roles in IAPD and it is through the association that we all met and learned to respect the type of business that each has managed over the years. We have similar philosophies on how we treat and train our people and how we take our products to market and this is one reason why we think Prisma will be successful.

*Q. Will you likely see imitations of this move in other countries? Would it work in Europe? US?*

A. I would see no reason why this wouldn't work in other countries. I believe it is more about the type of business and the style of management of each company rather than any other factor. We are also not underestimating the amount of work it will take to make Prisma successful, everyone has to be committed to make it work.

*Q. What advice would you give a new person entering into the Plastics Distribution and Fabrication business today? What does the future look like?*

A. I think the future looks very good for the industry. We still have a tremendous potential for plastics in replacing conventional materials in all industries. The challenge for everyone involved is how do we collectively put our efforts in growing the use of plastics so everyone will benefit?

*Q. On a personal note, what would you be doing if not doing this?*

A. Mel, that's a tough one. I have been in the business for 35 years, that's what happens when you start a business at age 18. I have really enjoyed working with the people of our industry both here in North America and in Europe, developing applications for replacing metal with plastics, working with my team at Redwood and now Prisma, quite frankly I can't think of anything else I would rather be doing.

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.

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  
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