



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

JULY 2007

Dear Colleague:

Yielding yesterdays yoke...yes your yearlong planning pays dividends as we head into the second half of 2007 (already!). Expense control commensurate with record sales growth so far this year in most of our industry is beginning to produce record profits. How long those metrics will continue is a matter of considerable speculation and especially wise management.

Inflation remains the wild card in the 2007 business outlook, as several factors are fueling inflation...strong global economic growth; the weak U.S. Dollar; slowing productivity growth; and a widening drought causing spikes in food prices. Expect overall inflation to equal last years 2.5% rate. Many companies can't easily pass on higher costs to their customers in our industry, who are growing more price conscious due to the perceived correlation with gas prices at the pump.

India may be the new China ...in the global marketplace. India's headed in that direction with plans to greatly improve infrastructure in the next decade – it will take decades to get to where China is now, however with its currency policy it will happen due to its size.

Both export and import opportunities abound with plastic shapes in India especially in plastic sheet manufacturing and in the reformation of traditional distribution patterns.

Manufacturing has been rebounding with more companies restocking their shelves, although factory production is expected to rise only 2% this year, at this halfway point. Compares with 3.6% in 2006. By 2020 look for China to pass the U.S. in manufacturing output, with the U.S. lead continuing in the service sector, as well as its advantage remaining in the capital goods sector.

Some economic forecasts: GDP at 2% for 2007; interest rates ending '07 at 8.25%; inflation at 2.5% for the year ending 2007 and crude oil averaging \$60 a barrel, although at press time this key indicator of our industry spiked at \$70.

TRENDS: Trucking firms (especially LTL) are losing some control over their rates since later this year regulators will revoke truckers anti-trust immunity on price fixing. This should reduce annual rate hikes by as much as 1%...expected to go up 4% this year, compared to 5.5% in 2006.

Ultra Performance Plastics, (UPP) have broken out of the HPM category and describes the newest materials that push the limits of heat and chemical resistance - PEEK, PBI, high heat sulfones and PAI are some examples. Heightened demand for lighter, tougher alternatives to metals, ceramics, and thermosets are the drivers for this group that is growing 15% per year, although demand is estimated currently at only 7 million pounds per year. New manufacturers entering the business are helping pull through the demand and shapes of these materials are imminent.

Conferences on New Developments in Engineering and High Performance Plastics and Designing with UPP for Metal-to-Plastic Conversion are scheduled to take place in November 2007 in Pune, India, and July 25th 2007 on line respectively, further advancing the field of knowledge and application development that is a mini-revolution taking place in our industry.

In the case of the 7/25/07 web seminar, sponsored by Omnexus, machining of Solvay's Self-Reinforced Polyphenylene stock shapes will be featured.

We recently attended GE Plastics (GEP) Innovation Seminar 2007, one in a series traveling around the U.S. and were impressed by GEP's continuing commitment to advancing our industry, while advancing their products, of course. Some global long term "mega trends" they identified and matched with products are: Personal Protection; Digital; Design and Customization to Differentiate; Reducing Carbon Footprints; Growth in Pacific Rim, especially China and India; Rapid Population Growth; Health Care and Social and Environmental Responsibility.

Lexan SG 305 Optical Bright Sheet and Lexan HP XXXX Anti Fog Film, as well as post-consumer PET recycled to produce Xenoy PBT and Valox, are some product examples.

Much has been written about "Blogs" on the Internet...now comes the first blog (to our knowledge) devoted entirely to distribution of semi-finished, plastic shapes. Check out *The Plastic Spork*, created by plasticguy, also known as Shawn Chambers of Canada's Warehoused Plastic Sales, at www.distributionbizwiz.wordpress.com. Another TREND begins in our corner of the Plastics Industry...very informative and amusing and a harbinger of things to come.

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

With the recently announced acquisition of Ludowici Plastics in New Zealand, Mulford Plastics launches its program to enter the market for value added Engineering Plastics. Arnold Mouw, MD of Mulfords, the architect of this move, states that moving into value added is the next development step for the Company. Editors Note: Watch this column for the next move in other markets. Bayer MaterialScience, with its Makrolon PC sheet is covering 3 Olympic structures in Shenyang, Tianjin and Qingdao. The architects for the projects are reported as using Makrolon for its strength, flexibility and design freedom that it provides.

Ticona Engineering Plastics plan to create a customer application development centre in Shanghai to meet the rapidly increasing demand for their products in the China market.

Formosa Plastics Group expanding their Polypropylene operations in Ningbo, China with a 1 billion. Lb/yr operation.

EPlas Sydney have announced the further expansion of their NSW operations with the appointment of Andrei Skoubiev Sales Manager, NSW. Andrei has more than 8 years experience in the Engineering Plastics market and will add to the ability of EPlas to continue their expansion.

In CHINA, the new Employment Contract Law was passed on June 29th 2007.

Employers will be required to provide subsidies to employees on days when workplace temperatures reach 91° F and for outside workers when it reaches 95° F.

Representatives of US based Labor coalition organisation Change to Win announced their intention to work closely with All China Federation of Trade Unions (ACFTU). The 5 day visit, the first in decades, led to positive discussions for both sides.

Watch the Indian Rupee - it rose nearly 7% against the US dollar between the end of March and end of May. The dollar for the past 4 years traded in a narrow band of 43 to 44 rupees. Watch for future movement.

PVF PERSPECTIVES: by David Chasis, special correspondent for PVF.

Commenting on Simona's acquisition of Czech based PTE Plast-Technik, manufacturer of plastic piping systems, and their second facility in the Czech Republic: **“ Eastern Europe is booming in plastic piping since most of the installed piping is ferrous which rusts pits and scales. The most popular replacement plastic material in Eastern Europe for water distribution and DWV is Polypropylene. Simona is a leading manufacturer of PP and PVDF in Europe as well as the U.S. and thus the synergies. My guess is the acquisition was rather small, under 5 Million Euros.”**

In further PVF news, J-M Manufacturing Co. completed its \$400 million merger with PW Eagle, Inc. – the companies will be known as JM Eagle and will be the globe's largest plastic (PVC and HDPE) pipe manufacturer with 25 plants in North America and 2300 employees. Formosa Plastics is purported to be the “mother” company of this transaction.

PRICING: Benzene prices set a record in May at \$4.23/gallon and June will show prices still elevated from the \$3.43 average for the Jan-Apr period. Of course PC prices followed with Dow and Bayer hiking their prices in June. Nylon prices went up last month led by Rhodia's move. PE, PP, PET, PVC and PS all had their prices increased in June by single digit per pound hikes. One should note that aluminum prices are also at record levels – most industrial raw materials, thermoplastic and otherwise exhibit continued demand-driven incessant increases.

DISTRIBUTOR/MANUFACTURER BRIEFS: The 25th anniversary of the PC based music CD (ABBA) has just been celebrated by Bayer and its Makrolon brand – revolutionized the global music industry and became the blockbuster PC resin application.

Speaking of PC sheet, 16,000 square feet of Makrolon® was used in the Chinese Olympic Sailing Center roofs now being built for the 2008 Olympic Summer Games.

GE Plastics introduces its new TP polyimide, branded Extem®, amorphous, melt-processable TPT...offshoot of its Ultem® PEI. Claims are for ultra performance (311° C).

Eastman Chemical and Spartech announce TiGlaze SUV resin, extruded into UltraTuf CX-D sheet, a high impact, thermoformable copolyester developed specifically for skylights.

Kleerdex Co. receives NSF International Splash Zone rating for its Kydex® sheet, opening up applications in countertops, tabletops etc. where surfaces contact food and beverages.

Cope Plastics awards a network and data services contract to AT&T for its 17 locations.

GE Supply, recently acquired by Rexel will now be known as Gexpro...what will GEPS be known as after the SABIC buy-out of GEP closes?

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Home Depot sells its \$12 billion revenue HD Supply Division to a group of Private Equity investors (Bain Capital, Carlyle Group and Clayton Dubilier) – thought to be bought at 11X EBITDA. Could set a precedent for valuation of industrial distribution companies. Once thought to be intent on acquiring many distribution companies in sight, including Plastics, HD Supply did not fit into Home Depot's core retail business, after a change in top management earlier this year. New owners say they have an appetite for further acquiring... Plastics may still be in the mix.

Basell is acquiring Huntsman for about \$10 billion, solidifying its lead in polyolefin's processing.

PEOPLE: At GE Plastics, new line up with Brian Gladden taking over as CEO and reporting to him Peter Arvan, GM of GEPS...other direct reports are Tim O'Brien and Scott Telecz -Darryl Hughes is head of Specialty Film and Sheet. Curbell Inc appoints Donald Harvey as Director of Operations – formerly held similar position with British Oxygen, and replaces Dennis Freeman, who remains with Curbell in another top management position.

INDUSTRY INTERVIEWS: ...continuing our interview with Dick Garthwaite, Exec. V.P., Business Answers International, at his Arizona office.

Q. Do you see continuing backward vertical integration with manufacturers, such as G.E. and Perspex have done with captive distribution? Why? Why not?

A. *I certainly don't think that vertical integration by manufactures into distribution is the way to go and I don't think there are any real good examples of successful ones here in the US. The reason they are not successful is that good distributors are successful because they can serve the needs of their customers for multiple materials. I think a distributor owned by a manufacturer will concentrate its efforts on the parent's material to the detriment of the overall business which will lead to a long term failure of the distribution business. Manufacturers would be much better served by developing successful marketing strategies in partnership with distributors rather than by competing with them.*

Q. What general strategic consulting advice would you give distributors and/or manufacturers to help them grow in the next decade?

A. *The theories are pretty simple – know what your strengths are and determine what segments of the market need those strengths. This is how you can differentiate yourself from your competition – quality and service are pretty much a given these days and are just the –“ante” into the game. Differentiation will lead to the long term success of a company. However, most organizations find that implementation is usually a lot more difficult than the theory.*

Q. How much longer will inflation in plastics prices continue to dominate and influence real growth in our industry?

A. *The plastics industry will probably always go through cycles of inflation given its tie to the petrochemical industry. Regardless of this, I think plastics will continue to grow at the expense of other materials as end users continue to be educated to the real value proposition of the correct plastic in the correct mechanical and environmental situation.*

Q. Which was the most strategic/tactical merger you've seen among both manufacturers and distributors during your career?

A. *Probably one of the better ones is the recent Quadrant/PolyHi tie up. I think that increased the presence and importance of both companies to the market place and, correctly implemented, should be very successful*

...to be concluded in the August 2007 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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