Mel Ettenson's GLOBAL PLASTICS LETTER
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"A World of Plastics Information"

JULY 2008

Dear Colleague:

<u>Relentless rise reverberates, resulting in record prices</u>. Hyperinflation resounds in our industry…of course driven by energy escalations. One such example is the record setting price of benzene on global markets, which just climbed to the record setting price of $4.31 per gallon up from $3.92 in May (in 2004 prices were below $2.00). This basic petrochemical commodity affects many <u>downstream resins used in much of our industry's semi finished shapes products</u>. At this juncture, <u>acrylic sheet has risen 31%</u> this year to date, so far, and the delta between MMA, PC and PETG is shrinking with PETG now priced more favorably.
<u>One wonders if the time is now to institute temporary energy surcharges throughout our industry,</u> instead of constant price rises, as the airline industry has taken to impose. Should prices abate, these surcharges can be rebated. Another advantage would be the elimination of the price increase holdout company…all <u>would institute an industry wide surcharge simultaneously</u>.
<u>Global GDP will show a meager 1% annualized gain (with the exception of China and India), but inflation continues to creep up</u>…5% in most industrialized countries. Pervasive pessimism plagues most economies as in the U.S. based largely on the belief that <u>oil prices will stay high</u>. New tax incentives such as accelerated depreciation and higher expensing will help prevent most economies from falling into more than a moderate recession with globalization continuing its positive effect.
<u>Gasoline demand seems to be falling in the highly industrialized nations</u> as consumer habits change but only a strengthening dollar will help moderate the global effect on inflation in oil.
The upcoming U.S. election results may offer a change in monetary policy affecting the dollar.
<u>Europe is following in the U.S.'s footsteps</u> and headed for a series of economic woes with sluggish growth and rising inflation. The European Central Bank will undoubtedly raise interest rates this month with the U.S. central bank sure to follow as inflation fighting becomes central to global economic policies for the balance of this decade. For more on European news, see Outlook Europe, which follows.

<u>TRENDS</u>: <u>Much is being debated about alternate sources of energy</u> to fuel our means of transportation and especially to drive our industry forward, continuing a 60-year trend…that seems to be stalling with this pernicious inflation. To paraphrase the 40 year old movie classic *The Graduate* (see the link on our website): " I have just one word for you: **bioplastics**". Is it time <u>for converting to plastics from plants?</u> A biotech company, Metabolix and its product *Mirel* seem to offer some hope and will be closely watched by our industry, as a full-scale plant in partnership with ADM takes form (for more information see *Business Week*'s June 30, 2008 issue).

Meanwhile in the automotive industry, at a meeting we attended last month sponsored by JVS Michigan, Bob Lutz, Vice Chairman, General Motors, committed to cellulosic ethanol fueled cars replacing 18% of gasoline driven vehicles and plug in hybrid electric cars getting 100 mpg, to be offered in 2010. The trend in industry is clear and the die is cast…we all need to adapt to these generation changing initiatives – our globe will never be the same and oil independence is coming.

Plastics used in MRO applications were a $11.3 billion market in the U.S. in 2007, according to Industrial Market Information Inc. and published by *Modern Distribution Management*. The heart of our industry's markets indicated that among the top SIC codes were 8062 (general medical), 1711 (plumbing, heating and air conditioning) followed by electrical, contracting, pharmaceutical and others – the eastern U.S. accounted for over 50% of total sales volume…for a complete analysis go to: www.mdm.com

Many distributors and manufacturers in our industry have invested in ERP and CRM software, usually available from SAP and JD Edwards, unit of Oracle, as technology continues to improve.
Productivity, after an initial horrendous break in period, will always improve and profit margins gain. Centralized desktop computing is also catching on…putting company software on a server connected to pared-down desktop terminals – saves IT staff time, minimizes hacking and extends desktop computer's useful life span. These are must-do steps to weather this difficult economy.

OUTLOOK ASIA…by **Mal Binnie**, our Special Correspondent, embedded in the Pacific Rim
The economies in the Pacific continue to tighten, with the exception of China and India. Australia is following the USA trends with the stock market having fallen to a 26 year low. China is still running at full speed with the Olympics due to start in 5 weeks. Chinaplas in April welcomed more than 70,000 visitors with 12,000 from overseas representing more than 100 countries. This is becoming an exhibition that cannot be missed if suppliers/manufacturers want to announce new strategies, capacity increases and expansion. Growth in dollar sales of plastic products no longer reflects only an increase in volume output. As raw materials prices increase, transportation costs rise and currencies change in value, dollar sales are not always volume driven. An example was given recently by Vietnam. With exports up 32% in value year over year, but with prices having risen 10-30% and resin costs up 25% the result for Vietnamese producers is negative in their bottom line. Asian producers have indicated that the depreciating $US has fuelled oil and natural gas prices which has impacted the production costs of derivative plastic resins. A former US Federal Reserve economist pointed out that "the collapse of the dollar exchange rate alone explains at least 50% of the increase in the pump price of gas over the past 5 years."

China continues to introduce new Labor Laws. The All China Federation of Trade Unions (ACFTU) launched a new centralization movement as part of its overall push to unionise private and foreign invested enterprises (FIEs).

The goal is to establish unions in over 80% of Fortune 500 subsidiaries, currently less than 50%.
Yunnan province in China is starting a REAL BAN by outlawing "all plastic shopping bags". Thickness is not the issue - neither is free or charged. Plastic bags are out even if they are biodegradable. The Australian authorities are still debating what they will do.

Exhibitions: 18-22 September... Taipeiplas Taiwan, Taipei World Trade Centre Nangang
7-10 October .... Ausplas, Australia, Melbourne Exhibition Hall
21-23 October .... Plastics and Rubber, Vietnam,, Ho Chi Minh City

OUTLOOK EUROPE…by **Chris Parry**, our Special Correpondent, embedded in the U.K.
A recent London Times article has predicted that business failures in the UK will be at "dot-com" levels in 2009. If correct it clearly doesn't bode well for the next couple of years in the plastics industry. Only 6 months or so after opening for business, ThyssenKrupp Materials has closed their Bristol, UK based plastics

distribution business with the loss of all jobs at the facility. Inventory will be moved to their main UK facility near to Birmingham, where all future UK plastics activities will be based. By contrast Simona, the semi-finished products and sheet manufacturer, has just announced that its sales in 2007 showed an increase of 14.1%. However, a more modest increase is expected in 2008. The 2007 increase was based largely on growth in their domestic German market and the acquisition of Dehoplast brand from Alfons & Ewald Schmeing. Simona currently processes over 100,000 tonnes p.a. and is building new plants in Jiangmen, China and Litvinov, Czech Republic. Bayer's Makrofol ID material has been specified for 40 million UK driving licenses. The "credit card" type licenses have been developed, and will be produced, in Switzerland and utilize the temperature performance of polycarbonate to make the product both more secure and more resilient in use. The unique laminated construction allows for the secure laser imaging of both the holder's photograph and signature into the body of the license.

PRICING: In a word…**rising continuously**. Some significant increases (initiating producers are noted, with all their competitors joining) effective this month are: BASF – styrene; Ineos – PS and HIPS; DuPont – nylon; and Dow – polyolefins. Of course the record prices of crude oil have caused these moves. How to lower oil prices? Unlike other commodities such as corn, oil can be stored in the ground. So when will an owner of oil reduce production or increase inventories instead of selling his oil and investing the proceeds into cash? He will keep the oil in the ground if its price is expected to rise faster than the interest rate that could be earned on the money obtained from selling the oil. Any steps that can be taken now to increase the *future* demand for oil globally, can therefore lead to lower prices

PVF PERSPECTIVES: First triple wall, 60 inch corrugated PE pipe introduced by #2 producer, Advanced Drainage Systems. JM Eagle, Ipex, Charlotte Pipe and Diamond Plastics round out the top 5 North American pipe, profile and tubing extruders - PVC, HDPE and ABS are top three materials used in these products. Despite controversy, no lead is used in any of these products.

DISTRIBUTOR/MANUFACTURER BRIEFS: SIP develops high performance Lexan PC films for making electronic ID cards and security documents…laser markable. SABIC, SIP's parent, also reports 33% rise in full year net profits reflecting its September 2007 acquisition. New high impact Hostaform long glass fiber acetal resin from Ticona hits market. Arkema develops acrylic block copolymers for MMA – said to offer Nanostrength® superior mechanical strength properties.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS:
M&A's are generally down as credit crunch and availability of capital are having an effect. Solutia is looking for a buyer for its nylon business. Spartech planning a major turnaround, led by new CEO Myles Odaniell, Chairman Ralph Andy and Sr.V.P. Janet Mann.

PEOPLE: …**in memorium:** Greg Berry, Regional Manager, Piedmont Plastics, passed away suddenly on April 29, 2008 at his home near Atlanta, GA. Greg spent almost 30 years in our industry starting with Cadillac and then 25 years with Piedmont. He was a director of IAPD and a recipient of its Pacesetter award in 2004.

INDUSTRY INTERVIEWS: …concluding our interview with Pat Foose, COO, Harvel Plastics

Q. What is your approach to doing business online?
A. We were one of the first manufacturers in our industry to have an online presence. We utilize the web as a tool to promote our product offerings and provide the necessary engineering and application information for specification development. We are not selling online but continue to look at what's out there in the event it's a way for us to bring greater value and service to our strategic channel partners. We are extremely proud of our website and will continue making it one of the best websites relating to PVC and CPVC Piping, Ducting, Shapes and Profiles.

Q. If you could project 10 years ahead, what would our industry look like?
A. I don't think the industry will change a lot but it will change…and for the better. There will be more emphasis on education and awareness for the use of plastic products in many more applications. I think the whole plastics channel will become more unified in its approach and in turn this will provide opportunities to all involved.

Q. On a personal note…later this year you will become the first IAPD President in its 52 year history to come from the Manufacturing sector. How did this happen? How do you think your term as President of IAPD will change things, if at all?
A. I have been very active and involved with the then NAPD and now IAPD for over 22 years. We have always supported distribution and have been members for 33 years. Earl Wismer, President and CEO of Harvel has always realized the importance of getting involved and giving back to the industry you are fortunate to be a part of. It was through his encouragement and support that I became the representative from our company. Over the years I have served on various committees and was appointed to my first term on the Board in 2001. During my second term I was asked to be the manufacturers' liaison to the Executive Board and subsequently to the Board. The association bylaws always allowed for a manufacturer to advance through the chairs, but it never happened. The Board felt it was time that a President came from the manufacturers sector. I accepted after discussing with Earl and gaining his support. As President I will guide IAPD through the changes that were recently passed and focus on the New Strategic Plan and Vision that is being developed. IAPD will continue to evolve into a channel association and I am honored to lead and be a part of this great association at such an exciting time in its history.

Q. Since a small percentage of IAPD members (approximately 50-60) are in the PVF business, how can IAPD best serve them?
A. We will look at some of the things IAPD has been effective at over the years for sheet, rod, tube distributors and gear these for PVF membership. The education committee as you know has developed a very successful training program for our membership and has plans to develop one aimed at the PVF members.

Q. How do you think the GLOBAL PLASTICS LETTER can best offer more PVF information to this group of members, both manufacturers and distributors?
A. You already have a very successful model that's geared toward the semi-finished shapes industry. My team here at Harvel looks forward to reading it very month and would enjoy a newsletter that was concise, informative and to the point – relating to the PVF community. Have your people contact mine and we can discuss it in greater detail.

Q. If you could come back as someone else, who would it be?
A. Winston Churchill – an absolutely amazing person!

Q. What do you consider your greatest accomplishment?
A. Patrick and Lauren, my children, and Shari my wife of 19 years. I'm also extremely proud of what we've been able to accomplish at Harvel and how as a company we are viewed and respected in our industry. I'm truly blessed to be working with and for the most amazing people in the world!

Thank you.

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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