



GLOBAL PLASTICS LETTER

E-mail: mettenson@globalplasticsletter.com
Website: www.globalplasticsletter.com

“A World of Plastics Information”

JUNE 2006

Dear Colleague:

Unrelenting uncertainty, unchecked... such is the state of our industry globally, as we start to close out the first half of a good year. First quarter economic growth was well above average (approximately 5%); however energy prices, increased interest rates and a slowdown in housing will probably dampen future economic growth in most countries. Overall inflation remains high compared with a couple of years ago, primarily due to higher energy prices, which will continue to increase, adding to the slowing of growth. Inflation pressures are on the rise and when high raw materials costs are added to the mix, conditions are nearly perfect for price growth.

All metals will continue to soar as demand (China primarily) doubles by 2011 – all raw materials will join this trend and unless petrochemicals lag, many new plastic replacement applications will lag and miss growth opportunities that will affect our industry for the balance of this decade.

Many companies will still struggle to pass on higher costs, although it will get a bit easier since competition from low cost producers limits many in raising prices, especially on manufactured products — average profit gain will slow to 8% from 13% last year.

The US dollar's decline – 6% against the Euro, 7% against the Yen and lower versus the Yuan and the Canadian dollar (all in the last month), reflect international differences in interest rates... higher interest rates in Europe and Japan while the U.S. appears to have stopped raising rates. Thus US exports are cheaper and of course imports more expensive, causing a sea change in those companies in our industry that engage in global marketing.

TRENDS: Distribution Industry Indices for the beginning of 2Q 2006 indicate some growth and some slowing:

- Purchasing Managers Index up to 57.3 from 55.2 in April
- Industrial Production (rate vs 1997 average) up from 111.2% to 112.3%
- Productivity (1Q 2006) up from -.05% to 3.2%
- Durable Goods orders down from 6.5% to 4.8%

Watch Nanotechnology as it impacts new plastic materials (a nanometer is one-billionth of a meter...that's like comparing the size of a marble to the size of Earth) – GEP has already announced some beginning materials. Nanotechnology matters because familiar materials begin to develop odd properties when they're nanosize. Scientists can engineer a cornucopia of exotic new materials such as plastic that conducts electricity and coatings that prevent ferrous metals from rusting – and entry costs are low. A trend that will impact us all in the next decade and produce 21st century leaders.

U.S. Plastics Industry M&A activity (manufacturers) for 1Q 2006 increased substantially over the same period in 2005. Private equity buyers accounted for 26% of the acquisitions in the period, compared with 7% in the prior year – foreign acquirers did 14% of the volume versus 5% in all of 2005. Similarly – M&A transactions in the Distribution sector advanced with private capital accounting for a major share of the buy-outs. This trend is likely to continue as consolidation advances and sales volume exhibits ongoing growth.

When our industry is at this apex of the business cycle, it is common to hear the edict “fire the unprofitable customer.” Distributors in particular, should correct their service and pricing policies before even considering paring their customer rolls — often sales and management are contributory to low/no activity profit accounts. Assigning normal step costs, such as delivery, warehouse labor, accounting labor and sales to cost drivers. Coupled with limiting services, service charges for special freight requests, reducing outside call frequency, moving perennially unprofitable customers to lower cost solicitation methods including telesales and e-commerce, the customer can become more profitable and “unfireable.” Firing customers is a legitimate strategy for accounts that abuse services, intimidate salespeople and don’t pay on time. For all the others, tread carefully.

Chinaplas 2006, China’s largest plastics trade show reports record breaking attendance of 60,000 with a 20% increase in exhibit space over last years show. Next year it will be held in Guangzhou, the booming South China region May 21-24, 2007 and with the NPE scheduled later this month in the U.S. (Chicago), there should be many innovations introduced to our industry.

PRICING: June 2006 starts out with price hikes in most Engineering Plastics(ETP) ... Ticona ups UHMW as much as 20%, effective July 1. DuPont and Lanexess raise ETP’s including nylon, acetal, ABS, PET and PBT at least 5%, first in Europe and then more widespread - already in effect. Commodity resin prices such as PE, PP, PS and PVC have remained steady to trending downward slightly as supply catches up with demand, with some U.S. capacity resuming after hurricane-caused disruptions. Other commodities such as benzene and ethylene monomer are up this month although not nearly as close to record levels as are aluminum and copper.

DISTRIBUTOR/MANUFACTURER BRIEFS: Arkema (formerly Atofina), ICI, Lucite International and Quinn Barlo were fined by the European Commission for colluding and fixing prices on Acrylic sheet. A total of 344.5 million Euros (US \$443 million) in fines were assessed against a cartel that operated for five years starting with a meeting in a hotel in Ireland in 1999. Degussa was exempted for cooperating in the investigation, while Repsol and BASF were implicated but not fined. Appeals are being considered.

DuPont Engineering Polymers has restructured its authorized distributor network for Vespel® shapes — AIN Plastics, division of ThyssenKrupp Materials NA, has been named as Eastern U.S. distributor while Curbell Plastics is authorized for the Western U.S. Professional Plastics is no longer an authorized distributor of Vespel. This is the first major realignment for Dupont’s Vespel distribution program. Gehr Plastics appoints Trident Plastics as its newest distributor. ZL introduces 900-T filled acetal.

OUTLOOK ASIA BRIEFS: an update by Mal Binnie, our Special Asian Correspondent embedded in the Pacific Rim and reporting by phone and email:

- Chinaplas will be moving to Guangzhou in 2007. Previously held in Beijing exhibitors convinced the organisers of the benefits of relocating. Transportation for overseas visitors will prove more convenient and border crossings out of Hongkong can be by Ferry, Car or Air flights. If you missed exhibiting or visiting Chinaplas in Shanghai during April. Make a note in your Diary for APPlas Beijing International Exhibition Centre 15-18 August 2006.
- PPG Industries has commenced a JV with Simona Jingjinq Fiberglass (not Simona GmbH) to serve the global thermoset markets in filament wound epoxy pipe, wind energy, construction, marine and transportation.
- In the Asian market all thoughts turn to China. It is the driver for imports and exports. Since 1978 when its economic reforms were commenced it has continued its growth and by 2010-2015 it could match the purchasing power of the USA. But can it sustain this growth? Carston A. Holz, Professor of Economics, Hongkong University of Science argues in the Far Eastern Review that it definitely can. So with its size and leadership in Asia it is not too late to introduce your products to the market through the many regional distributors located throughout China.
- Apologies to Impack Pratama for the misspelling in the last issue, but watch these pages for news of their planned expansion into China market.

ASIA PLASTICS INDUSTRY EVENTS

June 18 - 20 Australia PACIA Conference Melbourne
August 15 -18 China AP PLas Beijing
September 14 -17 Thailand Thai International Plastics and Rubber Exhib. Bangkok
October 9 -10 Singapore Developments and Applications of High Performance Engineering Plastics

OUTLOOK EUROPE: by John Douglas – our Special European Correspondent, embedded in the UK and reporting via phone and e-mail.

Prior to the month of August when France, Italy, Spain, Greece, and Portugal shut down for their annual holiday period of 3 to 4 weeks there is usually a rush to fill the tube of supply by countries who stagger the holidays. This usually means a bit of price softening as the manufacturers up production. The North American buyer has a good chance for some lower prices in this period especially if they are buying in F, I, Sp, Gr and P. The consensus is that the market in Europe has too many distributors and the pie is not growing fast enough to keep everyone fed. We know that this pushes down margin or means cutting back on costs. The ability to reduce staffing levels is hampered by Europe's very strong labour laws, which in some cases means it is virtually impossible to make redundancies. France and Germany have two of the strongest regulations and you find almost a civil servant attitude on the part of employees. The new developments include Zellmetall of Austria setting up an office in the UK to develop the distributor market. This writer feels that this is a positive step forward and allows the manufacturer to work with their distributors and to help in the training and as well the marketing and promotion of their products. The future growth in new products is limited unless the manufacturers work with the distributors to train the staff on new applications and to give them the confidence to suggest new products to the account base. This is the case when the producer is lets say in Greece and the distributor in Sweden. Unless the producer invests in the distributor then their product will not get the exposure it needs. This then drives the producer to appoint other distributors or that worst case scenario, open their own sales office and then their own distribution. The US distributor can call upon the factory for support and this is done in hour without language problems etc. Well, that is a brief outline of what Europe is doing this Summer and remember for the go ahead application driven distributor who shows products and or mfg loyalty there is always a place in the European market.

PEOPLE: *Correction*...we stated in our May issue that Georgia Jessup replaced Joe Pancar at GAPI USA. In fact she remains as Customer Service Manager, while Alexia Golden is temporary General Manager. Lisa Smith named Facility Manager at ZL Engineering Plastics Inc, USA. Mark Yorke opens Piedmont Plastics' first branch in Canada (Brampton ONT)...reporting to Jeff Howsam, Regional Manager in Raleigh, NC. *In memorium*... Austin Bowden, formerly of Cadillac Plastics and Coast Plastics. Linda LeVon Steiler, financial analyst, AIN Plastics, and ThyssenKrupp Materials, NA.

INDUSTRY INTERVIEWS: ...continuing our interview with Graeme Fraser, Principal, Prisma Plastics International – a recently formed alliance of four Canadian Plastic Distributors.

Q. Which one of you four will be the “tie breaker” in case of disagreement in how the business will be run?

A. Prisma Plastics International will be run by a 7 person board which represents the shareholders of each member companies, we have developed what we believe to be a very realistic plan and like any successful company it all hinges on implementation. Each company is a well managed and committed to make Prisma a success so hopefully there should not be to many disagreements.

Q. What about Canadian government regulations prohibiting this as this move affects anti-trust rules? Has something similar been done in Canada in other industries? We know European Union manufacturers have banded together – what about distribution?

A. This does not breach any anti trust rules, as we all operate in different regions and are not eliminating the customer's right to buy from many of our competitors. I think what makes this unique is this is not just a buying group but a true alliance established to integrate many of the business operations. Buying groups have been done in many industries both in Canada, Europe, and the US and many have been very successful.

Q. How have all your employees reacted to this? Suppliers? Customers?

A. We have had tremendous support from all our employees, in all locations. We have all seen the mergers in our industry and the biggest problems some have experienced have been employee uncertainty. When two companies merge and you end up with 2 or even 3 locations in the same region, the employee know that downsizing is a reality and this creates a lot of anxiety. Our employees have been able to see that Prisma will create opportunity for new products, future growth and are looking forward to working with new people in the other companies. We have had a similar reaction from the suppliers; each has viewed Prisma as a way to expand their product line into new locations and markets, and to help us grow the overall market for plastics. Our customers are now just beginning to see some benefits for the alliance, new products and services are being introduced to them as we complete our training programs with our sales teams.

Q. Are the manufacturing entities that you engage in affected by this alliance?

A. Each company has an internal fabrication or manufacturing facility and each alliance company can take advantage of these products for selling in their region.

Q. Will Prisma have its own internet site? Will it engage in b-b commerce?

A. Prisma.com has been up since the announcement, but at this stage it is only a link to each of the other web sites. It will engage in B to B commerce, as we feel this is an area were a consolidated approach will be very beneficial for all the companies in the future.

...to be continued in the July 2006 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.