



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

JUNE 2008

Dear Colleague:

Incessant inflation irks industry ...recession fears abating in the wake of major double-digit raw material price increases, such as Dow's announcing a 20% jump in most resin prices effective June 1, 2008. When the surge in commodity prices levels off – and it will; the laws of supply and demand have not been repealed – inflation will subside on its own. However, in the run-up to stabilized prices, the specter of recession will remain a challenge for our industry as MROP buyers will continually shop for lower prices, slowing the procurement cycle.

When will inflation abate? Possibly not for several quarters...however this is not a repeat of 1973-1981 when price indexes rose 9% a year on average, as wage hikes built into union contracts spiraled upwards and prices increases were passed along the way to the ultimate user.

Many companies today can't boost prices – a classic stagflation characteristic. If oil prices moderate later on this year (\$100 per barrel seems “moderate” today), the upward spiral cycle could be broken and sub-par economic growth could be reversed, auguring well for our industry.

In the interim, prices of copper, zinc and nickel are escalating to daily records (in fact U.S. coin currency will change whereby pennies and nickels will no longer be made of copper and nickel alloys, but of steel). Conversely, metals are now much more susceptible to substituted plastics applications. The run up in metal prices is becoming a boon to the plastics industry, moderating the effect of inflation in some of our markets, allowing some growth by alternate materials...plastics!

Credit markets are finally showing some hints of a thaw as global banks are repairing their balance sheets and raising billions...lending standards remain strict however, and capital restrictions are surely hurting business growth. Export opportunities abound for most countries and are a bright spot with smaller businesses sensing niche markets as globalization continues.

TRENDS: Stagflation may be back... how can we combine robust economic growth with tight global supplies of such critical commodities as energy? The similarities with the first half of the 70's are eerie. Here's how to beat it: Oil prices have roughly **quintupled** since 2002, natural gas is 50% higher than in 2007, and other commodities have followed the trend, although not in the same absolute numbers. There now needs to be macro investments in technologies to stem the tide of ever tightening global resources for energy...and food and water. The globe can't wait since it is much larger than in the 70's – the global population in 1974 was four billion...it is now 6.7 billion and income has tripled!

The U.S. spends only \$3 billion per year on energy research. Simple problem...obvious solution.

OUTLOOK EUROPE: - by Chris Parry, our Special Correspondent, embedded in the U.K.

No major developments in the overall economic picture since last month. Raw material and fuel costs continue to go up, and business activity continues to decline.

Vink Plastics U.K. has been acquired by the Robert Horne Group. Vink Plastics UK has changed hands several times in the last 7 or 8 years. A single location and originally the Dublin, Ireland and Manchester, UK branches of Comco, (Commercial Plastics), it was acquired by GE Plastics as part of their acquisition of Commercial Plastics, and subsequently sold by GE Plastics to Vink. Within the Robert Horne Group it will join their semi-finished plastics business initially made up of Quantum Plastics and the former William Cox Plastics group. The remaining Vink operations in mainland Europe are not affected by this sale.

Another company that was part of one of the two great plastics distribution businesses, (Cadillac Plastic and Commercial Plastics), then for a while part of GE Plastics, and is now an independent concern is Cadillac Plastic Ltd. I recently interviewed the Managing Director, Alistair Kennedy on behalf of The Global Plastics Letter. Editor's Note: This interview will be printed in its entirety later this summer...please look for it in the Industry Interviews section of the newsletter.

The Extrusion Business Index (which measures demand for extruded plastic products), for May 2008 (source: Mountaintop Economics) dropped by 15% compared to May 2007...this followed a 7% decline in April, year over year. Apparently the slowdown in the building materials industry is causative, with expectations of a turn around in 4Q 2008. *Purchasing Magazine*, in its May 2008 issue has published the results of its Distribution 2008 survey and it is most revealing: some examples – “product availability trumps price”; “over the past 5 years, purchasing buys more from distribution”; “purchasing overwhelmingly uses the web to do business with distributors”.

Note: be sure your website is not seen as “brochureware” solely but interacts with customers.

For the full report go to: [www.purchasingdata.com](http://www.purchasingdata.com).

Wolseley plc, the mega industrial distributor has closed 75 branches of its Ferguson unit, citing adverse market conditions in the building materials segment.

The use of bioplastics in industrial semi-finished shapes products is growing as witnessed by Gehr Plastics workshop on the subject this month in Mannheim Germany. A new materials selection database is being made available by *Plastics Technology*...called M-Base. One version is free and can be accessed at: [www.ptonline.com/plaspec](http://www.ptonline.com/plaspec).

PVF Perspectives: The Plastic Pipes Conference is to be held Sept 22-24 in Budapest, Hungary.

The PVF sector is the fastest growing component of the \$75 billion plumbing, heating, cooling piping industry and is expected to grow by double digits in 2009 after a decline in 2007 and a flat 2008 – globalization is said to be a major contributor...with PE pipe leading the surge in growth.

PRICING: As reported above, Dow and now Huntsman have hiked prices on their resins by double digit amounts. Coming after almost 5 years of single digit increases, the outlook is for continued relentless upswings for PVC, PET, PE and PP...engineering resins will certainly follow this trend as feed stocks continue to climb. Hedging polyolefins on the London Metal Exchange (LME) is a key strategy for those companies who can ...and must take advantage of this new initiative. In fact, the LME has enhanced its specifications and offerings to encourage more participating companies such as extruders, casters and molders. **This just in...** DuPont takes nylon and acetal resins up \$.20 per pound effective July 1, 2008 – other specialty resins raised double digit amounts, as well. More increases expected in Q3 2008.

MANUFACTURER/DISTRIBUTOR BRIEFS: Quadrant reports slightly negative overall results for Q1 2008 sales but its EPP unit reported single digit growth. Eastman completed expansion and switch to specialty copolyester. Sabic reports 33% rise in full year profits, after the effect of its purchase of the former GE Plastics (renamed Sabic Innovative Plastics) operations.

PEEK hoses from Kutting Ltd. and made from Victrex PEEK polymer are said to enhance offshore oil and gas industry requirements for exploration...certainly needed by the globe today.

Ewing's Ray York (outgoing NAW President) invited to White House conference, tells President Bush how he is expanding by using economic stimulus plan's rebate to invest in his business.

New thermoformable TPO sheet from Spartech is easier to process and used as RV panels.

Non-glare satin Vivak PETG sheet from Sheffield Plastics is aimed at POP displays and signs.

Sabic Innovative Plastics (SIP) replaces CEO Brian Gladden (who goes to Dell Computer as CFO) with Charlie Crew – long time(30 years) GE Plastics Executive, who previously ran LNP.

SIP also resumes participation in NPE 2009, with a 12,000 sq. ft. booth – GEP had dropped out.

Bayer MaterialScience introduces first PC front windshield in Hyundai concept car. Also its Makrolon PC film is seeing use in pre-warming of essential blood supplies during surgery.

Rochling opens development and training center in Europe and introduces full product catalog.

Altuglas offers Altuglas Black and Thick PMMA sheet in many new finishes for all its color line.

Also installs new line to produce acrylic resin and acrylic capstock at its Bristol, PA plant.

Many distributors, such as Ridout, are advertising on a new website: [www.globalspec.com](http://www.globalspec.com) .

Speck Plastics, major thermoformer, is increasingly using PC sheet and claims high quality parts.

ThyssenKrupp Materials consolidates operation in Europe with ThyssenKrupp Schulte.

Quadrant EPP acquires Global EPP assets in Mexico.

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

Henkel of Germany acquires two National Starch adhesives businesses from Akzo Nobel.

W.W. Grainger continues to expand branches, especially in Mexico where it has 20 branches.

DuPont expands its South China nylon capacity and Bayer opens 2 new tech centers in Shanghai.

Ticona announces next generation of acetal copolymers, named Hostaform S 9364 and will build an acetal production plant in Asia in the next 3-5 years. SIP expands its presence in China with new compounding plants – said to employ more than 400 in R&D in China and India. Swiss pipe manufacturer George Fischer buys Canadian pipe distributor Alfa Plastics as well as pipe extruder Central Plastics – to be part of GF Piping Systems...doubling its size in the U.S.

Mexichem acquires 70% stake in Brazilian plastic tube maker DVG Plastubos.

Major electrical distributor WESCO wins bid for mega MRO supplier Industrial Distribution Group (IDG) – price reported as \$130 million. Kazanorgsintez (major Russian PE producer) to open PC resin plant in Russia – located in Kazan, Tatarstan. A.M. Castle, parent of Total Plastics, buys Metals UK Group, which has facilities in U.K. and Spain.

PEOPLE: As previously reported, Charlie Crew takes the reins at SIP...succeeds Brian Gladden as CEO... spent 18 years with G.E. and ran LNP for them. He is the latest in a line of leaders of GEP that most recently went from John Krenicki to Charlene Begley and then to Gladden, who goes to Dell Computer as CFO. Bayer's Makrolon PC inventor Dr.Herman Schnell inducted into Plastics Hall of Fame. Tom Kiniski named President of Saint-Gobain Performance Plastics.

David Dunn named National Sales Manager for ZL Engineering Plastics – East.

INDUSTRY INTERVIEWS – continuing our interview with Pat Foose, COO, Harvel Plastics

Q. Should more selective distribution be the standard for the near future?

A. *Yes, I think that in order to continue to grow and prosper it will require significant investment by both manufacturers and distributors. With that said, it's going to require working more closely with a few rather than with many in order to educate, specify and bring value and margin enhancement to the chain. We can look at what's been happening in the automobile industry as an example. GM is paring down their dealer network and working more closely with those remaining dealers to deliver a higher degree of quality and product while enhancing profit margins along the chain. They are now realizing what Toyota has known all along. Working with select strategic partners while providing a high level of service and quality products coupled with an educated work force will drive results and provide the necessary resource for future growth.*

Q. Should distributors continue to inventory specialized products and should manufacturers help subsidize them?

A. *I think it's in the long term best interest for distributors to inventory specialized products as well as standard products. That is part of the many valued things they provide as being part of the channel. The ones who understand and manage I well have been very successful.*

Q. What do you think about rebates to distributors as some manufacturers offer?

A. *I think rebates are a detriment and in a lot of cases eventually end up in the selling price, which is not what they were intended for at all. This is not always the case but happens more often than not. I would much rather see those resources being used towards growing the market and applications for plastic products which in turn will provide necessary margin on the sales side. A few examples would be credits for specification work or product education as well as co-op advertising that would be market specific.*

Q. Who are your key resin suppliers and what is the outlook for continued inflation in resin pricing?

A. *OxyVinyls, LP and Lubrizol are our material suppliers. They are both experiencing tremendous pressure on their cost side primarily due to energy. The cost of energy is affecting every aspect of their business from minor ingredients all the way through to transportation. These cost pressures will not go away as long as energy costs remain high. They have already announced and indicated that substantial increases will be forthcoming. On a side note, another thing that has affected their cost structure is ongoing compliance with Homeland Security requirements to prevent terrorist attacks at their manufacturing facilities. Those costs have to be factored in along with everything else.*

Q. Why don't some manufacturers of shapes pass along resin increases in the form of surcharges, such as the airlines and truck lines do?

A. *That's a great question. We are experiencing surcharges on practically every invoice we get from trucking companies right down to the people who shampoo our office carpets. Most of them are related to the cost of fuel and are passed along as a fuel surcharge. I think it's a great way to temporarily offset rapidly rising costs such as fuel during unstable time such as we are experiencing and should be used more effectively in our industry like it is being used in others.*

*As the costs of those products become more stable which they will in time, it can either be eliminated or become part of a permanent increase.*

**...to be concluded in the July 2008 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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