



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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TENTH YEAR

Dear Colleague:

Global glut gets grave...oversupply of products begets price pressure and slows sales. Deflation is here but the threat of inflation hangs in the balance. Some credible economists are looking at a beginning recovery in 3Q 2009. Yet so many global events and pressures, including a doubling of oil prices in the last 30 days, give cause to doubt this optimistic view. We see a pickup in activity in our industry in 4Q 2009 and recovery continuing slowly into 2010. Businesses, both large and small will begin to shed their bunker mentality and consider new investments...this will be the true stimulus that will begin the global recovery...plan now for this.

The Global Financial Crisis (GFC) needs causative review to understand and deal with the prognosis... skyrocketing leverage; misperceived risk, and spectacular collapse. **Editors Note:** For a complete list of causes starting from “behavioral” to “technological”, email us at: mel@globalplasticsletter.com. A well-known observer of the economy, Judge Richard Posner, explains the current GFC as “a steep reduction in output that causes or threatens to cause deflation and creates widespread public anxiety...” He further avers that global banks were rational in the risks they took based on the rewards they thought they saw. The “bubble” in housing was not foreseen and so the decline that precipitated the general crisis of bank insolvency, resulted in the systemic meltdown. Understanding the past helps avert similar mistakes in the future.

Companies have not finished liquidating...more to come in this quarter. The good news is that steep inventory reductions typically come late in recessions. However proposed new tax regulations in the U.S. will require first-in, first-out (fifo) inventory valuations yet spreading the tax bill incurred when switching from lifo over a period of eight years.

Currently businesses have little ability to raise prices due to depressed demand and strong competition. Commodity metal prices should continue to fall but oil and natural gas will continue rising into 4Q 2009. Industries expected to resume growth are: semi-conductors; pharmaceuticals; auto manufacturing; and food processing...all good harbingers for our industry.

Firms with new applications, especially replacing metals, will continue to outpace those continuing to cling to the status quo...now is the time to begin to introduce HPM applications.

TRENDS: Trade credit insurance covers accounts receivable if a customer goes out of business...only 10% of U.S. companies carry it compared with 60% in Europe – this is an idea whose time, unfortunately, has come due to the GFC.

U.S. demand for flouropolymers to reach \$1.7 billion by 2013, a 4.5% annual increase.

Among the top 50 Industrial Distributors in *Industrial Distribution* are several who market plastic shapes, including Wolseley; Grainger; Motion Industries; MSC Industrial Supply and Applied Industrial Technologies. NPE 2009 opens this month on June 22 in Chicago...SABIC IP has a major presence, as opposed to 2006 when it was GE Plastics and dropped out. Exhibit space is reported to be up 16% as measured by number

of exhibitors. We will report on NPE in our July issue. Chinaplas, which just closed, had a record turnout in attendance and exhibit space in its 23rd year.

Read *Your Call is (not that) Important to us: Why Customer Service is Broken* – lots of lessons in how to lose customers...imperative tips in view of current business conditions.

OUTLOOK ASIA...by Mal Binnie, Pacific Rim correspondent stationed in Australia

Market turbulence of the past year has opened a new phase of Globalization in which volatility/change will probably remain a constant. The current downturn is not a full repeat of the crisis that hit SE Asia ten years ago. The strength of the 10 countries in ASEAN may be surprising but they certainly learned lessons from a decade ago.

In Memorium: On 19th May, Australia lost one of the founders of plastics distribution, Max Menzel. Max, who was 82, started in plastics with his father and brothers in the 50's and developed Menzel Plastics Traders into a National company with branches in Sydney, Melbourne, Perth and Queensland with HQ in Carrington St Adelaide. Max will be remembered fondly by his customers, staff, and suppliers from around the world. His sons Greg, Andrew and Mark and his nephew Philip continue to build on Max's legacy in the plastics industry.

The Australian market is witnessing many personnel changes as the distribution market finds new answers to the current global downturn. Mulfords have strengthened their product portfolio and are increasing their market push with MRC Shinkolite. Volatility of the \$Aus has been causing confusion in product pricing. Laurie Green of Cut to Size Plastics is pleased to report that despite the recession their sales this year ended June 30 will be at record levels. The addition of Martin Auliffe has assisted Laurie in the growth of the Sydney market. One of Australia's oldest sign makers, Gadsdens Signs has departed from the market. In New Zealand, Mulford Plastics presented awards at the 13th NZ Sign and Display to Creation Signs, Power Signs Nelson, Signtech and Admark. Mitsubishi Rayon Co Ltd (MRC) announced on May 28 the completion of its acquisition of Lucite International Group and will consolidate it within MRC. Ian Lambert will continue with overall control of Lucite and is also appointed a Managing Executive Officer of MRC. MRC have a new plant coming on stream in Thailand late in 2009. Mitsubishi Plastics and executives of Quadrant AG have launched a buyout of the Quadrant business and plan to expand the total business internationally (for further details see M&A section below). China is reported rapidly moving upwards in world innovation rankings. USA and Japan are still the top innovators with China changing from imitator to innovator. The absence of Bayer Material Sciences was noted from Chinaplas 2009. Ranier Rettig Snr VP explained this was due to a resetting of priorities. DuPont has opened a technical centre for the solar energy market and its Shanghai R&D location. Arkema has sold two of its Guangzhou businesses to Singapore's Hoe Seng Co - these were reported as non strategic to Arkema.

OUTLOOK NORTH AMERICA...by Bill Shields, North American Correspondent

The U.S. Trade Deficit grew to \$27.6 billion in March according to the Commerce Department and they also reported that orders for durable goods rose by 1.9% in April. The U.S. Budget Deficit is expected to top \$1.8 trillion. The U.S. unemployment tolls are now 14.5 million. The unemployment rate is now at 9% but is stabilizing. The Federal Reserve said that U.S. industrial production fell 0.5% in April, which is the smallest decline in six months. The American Recovery and Reinvestment Act of 2009 provides close to \$10 billion for water and wastewater projects. Global sales of semiconductor-making equipment have plunged 47.9% from the previous year. Canada reported that manufacturing sales dropped 2.7% in March to \$41.4 billion in contrast to February's gain. Businesses continue to cut their inventories (1% in March and 1.4% in February) in an effort to keep costs low. GM has declared bankruptcy and has announced they will close 11 plants. Fiat will own 20% of the equity of Chrysler with the rights to acquire up to an additional 31%.

Canada announced that its industry added 35,900 jobs in April - unemployment remains at a 7 year high of 8%. Oil prices will continue to creep upward. Gasoline prices at the pump are expected to reach \$3.50/gallon by July 4th. Expectations are for the jobless rate to rise to 10% by the end of 2009. On an up note, several economists expect the U.S. deep recession to end this calendar year. They feel that this is probably due to the federal government stimulus, lower commodity prices and lower mortgage rates. **DuPont** expects continued growth in the solar power market to nearly triple by 2012 to \$1 billion. **Bayer MaterialScience** has discontinued relations with its PC resin distributor, Ashland Distribution, and will offer its resin through both M. Holland Co. and PolyOne...**Cast Nylons Ltd.** has announced it is now producing cast nylon rods from 1" to 2" diameters in 10 ft. lengths...**Coca-Cola** announced it will begin using a new bottle containing 25% renewable resource content called the PlantBottle...**Gapi** announced it has acquired Artic Seals to strengthen its position with hydraulic and pneumatic cylinders... **Harvel Plastics** has introduced the industry's first UV resistant clear PVC piping...**HPG International** which closed in late March has been purchased by Crestwood Membranes and will reopen soon under the new name of Innovation 2 Manufacturing (i2M)... **King Plastics** introduced King MicroShield™ a new kind of antimicrobial protection... **LyondellBasell** has a new partner to pull it out of bankruptcy in ProChemie Holding Ltd...**Norplex-Micarta** has recently invested in a new state-of-the-art dielectric test equipment... **Quadrant EPP** has announced with the U.S. Department of Labor's OSHA that they will now "foster a safe workplace" initially trying it in Scranton, PA - then involving their other U.S. operations...**Sheffield Plastics** announced a improved Makrolon®LD for electronic signs that dissipates "hot spots" and reduces shadowing...**Spartech** now offers an eco-friendly replacement for PVC packaging... **Ticona** is developing new metal-effect polymers to replace metals with lighter more cost-effective materials.

PRICING: PP and PS resins inched up in May while PE stayed level – reduced capacity was a key factor. The outlook is for stable pricing in most resin and shape products due to low demand. Other EPM resins remain essentially stable.

MANUFACTURER/DISTRIBUTOR BRIEFS: **Evonik CYRO** introduces Acrylite® rods and tubes...a departure from past product offerings. **Solvay Advanced Polymers** for the first time is offering massive stock shapes of Spire®Ultra Polymers, in the PEEK family. **Ensinger** extends product offerings into polyimides with Tecasint, successor to Sintimid; semi-finished shapes as well as formed parts. **Bayer MaterialScience** releases ISO compliant colors throughout its PC and PC/ABS product line as well as bio-content PC blend resins. **Simona** reports contraction in revenue, albeit positive earnings in 1Q 2009. **DuPont** launches new film and sheet materials for photovoltaic modules across its HPM product line – its recent staff cuts not expected to have major impact on engineering polymers. GEHR now has 4 ft wide acetal plate. **Rochling Engineering Plastics** adds third press, producing 8 foot by 20 foot UHMW molded sheet. **Sheffield** adds new PC security laminate with improved light transmission...Makrolon® in both coated and uncoated form. **Teijin** restructures PC resin and PET films business.

MERGERS, ACQUISITIONS, ALLIANCES, DIVESTITURES AND EXPANSIONS: **Penda** shuts thermoforming line. **Spartech** closes its Marine business unit. **Sabic IP** to open Shanghai Tech Center in 2010...a major expansion in Asia. (See Industry Interviews below.) **Quadrant AG** is being taken over by **Aquamit B.V.**, which is 50% owned by **Mitsubishi Chemical Holdings** and the other 50% by a group of Quadrant founders and directors. **Mitsubishi Chemical** to exchange its PC business for **DSM's** nylon business in an engineering polymer swap. **Dow Chemical** collaborates with **Mianyang Longhua Film** in producing non-halogenated ignition resistant PC film and sheet.

INDUSTRY INTERVIEWS: **continuing our interview with Charlie Crew, President and CEO, SABIC Innovative Plastics**

Q. We see many companies attempting to grow by broadening their product offerings. Is SABIC Innovative Plastics expanding into any new product areas?

A. Our company name pretty much says it all. We are innovators of plastics...it's what we do. Yes, we are focused on developing products to further penetrate and grow a variety of industries ranging from automotive and healthcare to infrastructure, consumer electronics and more. New products like our Ultem-resin based fibers are opening a lot of doors in industries that require flame retardant applications such as home furnishings, gas filtration, fabrics and textiles, transportation and seating. New plastics to replace lead, provide EMI shielding capabilities and offer solutions in fluid engineering are also growing. The use of new high-modulus materials for thin wall housings for mobile phones, laptops, PDAs and other consumer electronics products are other good examples. And new healthcare products that meet toughening industry regulations are yet another area where we are growing. Environmentally responsible product technologies are another key focus, of course.*

Q. Has there been any political fallout, translating to business pushback, from your new ownership, considering global resentment of Saudi control of energy sources such as oil? What about policy towards women in management?

A. SABIC is a highly respected, good corporate citizen in all the communities in which it works around the world. It is also a leading petrochemical company in terms of product diversity, sales and production capacity. It is the largest public company in the Middle East, ranked by market capitalization, and one of the world's 10 largest petrochemicals manufacturers. The company is among the world's market leaders in the production of polyethylene, polypropylene, glycols, methanol, MTBE and fertilizers, is the fourth largest polymer producer, and the largest producer of steel products in the Middle East and North Africa. Our customers know that SABIC a great company with a strong global reputation. Regarding the second part of your question, a number of female SABIC Innovative Plastics leaders have traveled to Saudi Arabia and have actively participated in cross-SABIC initiatives to share their expertise and experience. All of our leaders – male and female – are respected by their Saudi colleagues, and there has been tremendous best practice sharing on both sides over the last year-and-a-half.

Q. Are there any plans to review product lines, with a view towards paring certain products due to not meeting core management objectives in the short term? Instead of closing plants, as an alternate might you eliminate unprofitable product offerings?

A. With our intensive focus on expanding the diversity of our customer base, we are always striving to ensure that our products are meeting or exceeding their requirements. And because we are a highly customer-committed organization, we are constantly in tune with what our customers require to strengthen their competitiveness. Market dynamics change all the time creating new customer needs and, I should emphasize, new opportunities for growth. Whatever these needs and opportunities may be, we will respond accordingly and will rationalize our products as needed.

Q. What new products/applications/markets will you be announcing for the second decade of the 21st century?

A. Markets are always evolving and changing in so many ways, including our core markets, creating ample opportunities for new products and applications. For example, regulatory requirements from WEEE, RoHS, the FDA and other global bodies have lead to a virtual explosion of opportunities to create new sustainable products to minimize the impact on the global environment. In automotive we continue to see OEM demand for greater design freedoms, paint-free solutions, reduced VOC emissions, and reduced weight for improved fuel efficiency – which only next-generation materials can provide. The same is true for consumer electronics, where increasing miniaturization in a broad range of products is calling for higher performing engineered materials with improved impact strength, heat resistance and EMI shielding capabilities. Healthcare is another excellent example where population growth and changing demographics – like aging Baby Boomers – are driving a virtual revolution in new medical treatments and, in turn, improved medical devices. These include smaller, more durable, portable devices for treatment at home; information technologies to enable telemedicine and remote consultation; surgical and other instruments; single use devices; and more compact yet higher functioning equipment designed to conserve precious hospital space.. The list goes on, but the point is that trends and customer needs are always changing. We work hard to anticipate these needs and, whatever they may be (now and in the future), we will develop innovative new product solutions to help ensure customer success.

...to be continued in the July 2009 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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