



# GLOBAL PLASTICS LETTER

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*“A World of Plastics Information”*

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Dear Colleague:

Sylogism senses prodigious profits...reports from all sectors of our industry are indicating resumption of revenue growth and accompanying profitability as cost cutting measures succeed.

European debt, especially in Greece, Spain and Portugal, has been well covered in the press, but excessive debt is a global problem. Many other countries over borrowed and are struggling under a similar burden causing a rise in interest rates as these countries have to pay more for capital. Unlike companies, countries continue to exist geographically and politically and so there are only two solutions...raise revenue (think taxes); cut expenses (think entitlements) or a little of each or default.

Fortunately global GDP seems to have begun to grow at low single digit rates as the “great recession” appears to be waning. Both consumer and business spending is increasing as the “worst is over” seems to be psychologically believable...if not entirely economically believable.

An appropriate model for many developed countries would be the experience in Japan in the 90’s where growth was stalled and deflation persisted for a decade...this may be looming.

Count on stable natural gas rates for several years as energy companies rush to tap bountiful reserves trapped deep beneath the Earth’s crust in shale formations...oil production awaits similar development extracting it from chalk and shale. This will be accelerated also as the fall out from the tremendous Gulf of Mexico drilling spill has its deleterious effect on traditional underwater drilling.

IT spending, which makes up about 4% of global GDP is resuming growth due to pent up demand from businesses...this augers well for our industry applications especially in semiconductor and chip manufacturing. Industries affected also include servers; hard disk storage; laptop and desktop PC’s; smart phones and cloud computing software. Doing business in China will be more difficult for exporting manufacturers as new regulations restrict procurement to products developed by “indigenous” Chinese firms and research organizations. Intellectual property may be compromised, or left out as exporters are required to transfer technology to Chinese customers.

Machine tool purchases, still far below pre-recession levels in developed countries have presaged shortages by suppliers now racing to make up for the shortfall, aiding heavy manufacturing attempting a renaissance.

TRENDS: The New York Mercantile Exchange (NYMEX) will begin to trade HDPE and LLDPE futures contracts, joining the London Metal Exchange (LME) in this latest method of minimizing price volatility risks by users of resin primarily in the film industry. Speaking of prices, newest trend, coming out of recession is to price based on performance, not competing on the basis of cost and low price. Some common mistakes of poor pricing policy companies:

**Nothing we do deserves a premium price**

**The customer “tells” is the price**

**Cost-based pricing is easier to explain**

**Using an average price across customer base rather than individual customer needs**

**Everyone else prices it that way**

**Our sales team’s incentives are driven by volume, not value**

Military vehicles in the UK are exhibiting improved impact resistance by the use of phenolic prepregs made by ACG UK...vehicles in use in Afghanistan.

Polyvinylamine monomer developed for use in water soluble applications

Will LyondellBasell; BASF and Monsanto be tempted to vertically integrate as SABIC did?

TPE materials will be one of the foci of the upcoming K 2010 Oct. 27-Nov.3 in Dusseldorf.

#### OUTLOOK ASIA: by **Mal Binnie, our Pacific Rim correspondent in Australia**

Although the stock markets in the Pacific were affected by the downturn during May the manufacturing and plastics markets continued their recovery. The Engineering plastics markets in ANZ are showing leadership changes with Mulford Plastics gaining increased share with new products and new suppliers. It is reported that EPlas has contracted Gino Valente as GM for a further 3 year term. From the early 1960’s when Plexiglas was manufactured in Australia via Rohm & Haas the brand name has always been linked with quality acrylic. Evonik Ind current producers of Plexiglas have announced the appointment of Halifax Vogel group as Australian national distributors for Plexiglas specialty acrylics including Satinice. Mulford Plastics have brought into ANZ a new range of digital Signbond material as well as Politec PC roofing materials. Sanyang Corp, Seoul has reported an investment of \$US 6 million to build up a new components plant in Hungary. In Seoul, Korea the government is assisting the growth of the wood plastics composite market by using these products in the all new park & public projects. Reports have been received of new polycarbonate film production capacity coming on line in Asia. China as the world’s largest petrochemical market accounted for 30% of global consumption. Demand from consumers continues to grow and even in 2009 with the GFC firms had a successful year and are now becoming more selective in their choice of partners. Entry into China was never easy but in the future will demand more of the partner plastics firm. With the Chinese Governments objective of increasing wage compensation for workers, as noted in May issue of this newsletter, and with the possibility of the currency rising further advanced the \$ US, exporters and pricing out of China is under growing pressure. However the Chinese economic rebound continues to provide opportunities. India & Vietnam are starting to take advantage of the cost pressures in China by offering competitive products and services, but do need to find ways to improve their service according to customers. India’s growth in polymer demand is expected to be in the 10% range for the next 5 years. Reliance Industries who are estimated to have a 70% market share will continue to benefit from this growth. From Kuala Lumpur, Malaysia Titan Chemicals reports stable demand but with prices increasing by 16% and volumes up 46% over 4<sup>th</sup> qtr 2009 it is expecting a profitable 2010. Acrylic manufacturers in Taiwan have announced price increases due to current raw material rises. Restocking and increasing markets are creating demand/production problems.

**OUTLOOK NORTH AMERICA: Bill Shields, on jury duty, resumes his column in July.**

**PRICING:** Resin prices heading upward from Arkema are Kynar®...an 8.5% hike as well as MMA, also by single digits in Europe by Evonik. PC from Bayer MaterialScience joins the trend. Dow joins the fray by upping all PE prices on the continent. Meanwhile in North America, after price hikes for PP, PE and PVC prices have taken double-digit nose-dives. Volatility seems to be prevalent in the commodity resin matrix. The outlook for June-July is for continued pressure on polyolefin prices with ethylene trending down as well as oil. ABS is up this month.

**MANUFACTURER/DISTRIBUTOR BRIEFS:** GEHR Plastics announces the addition of UHMW profiles to their product line. Initially produced in Germany, will eventually be manufactured in the U.S. SABIC IP provides 150,000 square feet of Lexan Exell D® monolithic sheet and Thermoclear® multiwall sheet for use at FIFA World Cup stadium in South Africa. Stadiums in Ireland, France, Australia, China, Austria, Portugal and Switzerland have also been glazed with these materials. Bayer's Makrolon® is being used in stadiums in Brazil, in advance of the 2010 Summer Olympics in Rio where there will be extensive use. Victrex's PEEK APTIV film continues to find applications in flexible foil sensors due to its unique combination of high performance properties including being hydrolytically stable and outstanding high temperature properties. Lucite International has its LuciteLux acrylic products featured on ABC TV EMHE show...SABIC PS supplied fabricated sheet in multicolors to create 3-D wave effect. Also Lucite International has been nominated for the MacRobert engineering award for its process that removes much of the toxic chemicals from production of acrylic sheet. Evonik's Rohm GmbH unit had shut down sulfuric acid plant in Germany, which supplies its MMA and PMMA production lines...output limited. Arkema's Kynar film featured in Photovoltaics conference in Germany...solar panel applications enhanced by the laminates incorporating PVDF and PET. Quantum Polymers offering stock shapes made with a proprietary polymer and carbon nanotube technology...said to offer excellent dimensional stability in semiconductor and aerospace industry applications. Curbell Inc. is being recognized by local officials for its recycling and sustainability efforts to aid the environment. A recent independent and usually reliable source's study of 2009 sales results for top 5 distributors in our industry provided the following rankings: (Note: ThyssenKrupp not included due to some different product lines)

Estimated Revenues above US\$200 million

1. SABIC Polymers
2. Laird Plastics
3. Piedmont Plastics

Estimated revenues under US\$100 million:

4. Total Plastics
5. Curbell Plastics

Balance of Top 10: Professional, Cope, AIN, E&T and Regal of Missouri

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

Rochling plans to open new plants in Romania, China and the U.S. by 2012...reporting double digit sales increases in 1Q 2010. Ticona buys Zenite-brand LCP business of DuPont along with Termx PCT...\$40 million sales reported for both businesses. Piedmont Plastics opens a new branch in Las Vegas. Boltaron sells its rigid PVC film business to Klockner Pentaplast.

**PEOPLE:** Gehr Plastics announces Joe Aleszczyk's promotion to SE Regional Sales Manager and Dave Beyer as Q.C. supervisor. At Kydex LLC, Rich Cort named NE Regional Manager. Braskem America appoints Carlos Fadigas as CEO.

INDUSTRY INTERVIEWS: concluding our interview with **Ellis Paine, President, EHPCO Inc**

*Q. How has the resin price inflation impacted you in the last 5 years?*

A. As prices have been volatile in the recent past, we have found some difficulty in passing on the increase as rapidly as we would like due to long term contracts, etc.

*Q. Do you see more stable pricing ahead or continuing swings up and down?*

A. We feel that prices should stabilize a bit but as our “crystal ball” is no better than anyone else’s, we will just have to be prepared for that which the future presents us with and react promptly.

*Q. Who are some of your key resin suppliers? Competitors?*

A. I am not comfortable discussing the question regarding resin suppliers or competitors but can assure all that any resin we purchase meets or exceeds all applicable specifications.

*Q. How has the product mix changed?*

A. There hasn’t been any great change in the product mix.

*Q. How do your products get to the end user?*

A. Mostly through the distribution network.

*Q. Are sales thru distribution growing? Direct sales?*

A. There has not been any significant growth or decline in the distribution area. Regarding direct sales there has been some growth due to custom materials and processing methods.

*Q. Do you use manufacturers reps?*

A. No.

*Q. How has the industry changed in the last 25 years? 50 years?*

A. Basically loyalty seems to be a thing of the past and in all areas business is much more competitive, which I feel is a direct result of the fact that manufacturing here at home has greatly diminished.

*Q. What do you attribute your longevity in the industry to?*

A. Being flexible, complying with customers requests, selling based on value and not just price, and basically be upfront and honest with all that we have contact with regardless of the marketplace we are serving at any given point in time.

*Q. On a personal note, what do you consider your greatest accomplishment?*

A. Being allowed, by this industry, to build a reputation for having integrity, being fair and being honest.

Thank you.

*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.*