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

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Dear Colleague:

Worrisome, watchful waiting wavers…caution abounds as the rate of new business investment worsens in the West. Many economists and soothsayers are reacting to observations as to the investment/productivity ratio by explaining that despite record corporate earnings being reported, investment has slowed dramatically from 7% last year to 4% currently. This of course affects productivity since high investment in equipment and software was one major reason for the productivity spike in the '90s that continued into this decade – and the reverse is true now. The longer term impact on most economies portends the concerns for industry generally and ours specifically.

Fading odds of a second-half rebound…the outlook for a growth rate of 2-2.5% seems clearer -but a recession is still unlikely. Profit growth is also slowing as costs for labor and raw materials remain high. We do expect flat interest rates in the global economy this year and thus foreign investment will quicken – Russia is attracting capital, especially in the biotech, glass, plastic and chemical industries. The Russian thermoplastics market increased 15% last year and demand has doubled since 2000 to 3.3m tones. Of course China continues to accumulate foreign currency holdings – currently about $1 trillion…primarily will be used to secure supplies of oil, chemicals and other critical natural resources from Africa and other continents. China is also heading towards domination of the global PVC market and could have almost 32 billion pounds of capacity by 2011 (twice the amount of any other global region) as a result of major expansions fueled by technology that uses coal rather than ethylene as feedstock.

Economies are far from the feared *stagflation* scenario but are exhibiting sluggish growth, which some are calling "slugflation" with price growth remaining low but output continuing with minimal momentum. Forecasts now show GDP up this year by low single digits with inflation keeping pace at the same 2-25% rate and interest rates remaining stable.

TRENDS: Nylon markets are expected to grow briskly as Solutia and Honeywell add capacity totaling 100's of millions of pounds of nylon 6/6 – targets are automotive, electrical/electronic markets globally and especially in China.
Medical tubing, utilizing many different polymers, is set for a jump in consumption with smaller diameters, thinner walls (as thin as 0.0001 inches) and more complex structures such as composites and dual extrusions - HPM's are the resins of choice and many products will feature braiding and coiling.

On the other side of the optimistic curve, San Francisco became the first U.S. city to ban plastic grocery bags – a trend may develop which could soften PE resin prices, while it dampens consumer demand for plastic products…bears watching.

Plastic pipe demand is expected to decline 5% this year as construction slumps have an effect.
The market for HDPE pipe, which is normally about one-third as big as PVC, is expected to grow about 10 this year and thus will change the ratio for the foreseeable future.
EDITORS NOTE: *Responding to many requests from current and future subscribers and starting in our June 2007 issue, we will be adding a new section featuring news and trends and concentrating on the* ***plastic pipe, valve and fittings*** *sector of our industry.*
We are pleased to announce that **David Chasis**, an acknowledged expert in this field for many years will be added as a special correspondent, embedded in global PVF markets, reporting from his office in Austin, Texas…watch for this special feature starting next month!

OUTLOOK EUROPE: by John Douglas, our special correspondent embedded in the U.K.
Ensinger, Italy and Simona, Italy have established a joint marketing program to offer primarily Simona's PE and PP sheet and rod (excludes PETG) – they already share products in the U.K. and there could be other jv's in the future. Ensinger may also be offering resins for sale in U.K.
Meanwhile the U.K. may be seeing lots of changes in distribution as Quadrant may be setting up a new distribution center in northern U.K, which could also stock the PolyHi product line.
Following closely behind may be Ensinger and Zell-Metall with revised channels of distribution.

OUTLOOK ASIA: by Mal Binnie, our special correspondent embedded in the Pacific Rim.
Vietnam's plastics industry registered export revenues of $US 500 million in 2006 - A growth of over 75% above 2005. EPlas Pty Ltd has expanded its operations in NSW Australia with the addition of two outside sales representatives to provide more personal service to their customers. The demand for engineering plastics in this market continues its steady growth.

China is currently the largest consumer of PVC resin in the world. In 2005 it used 8.2 million tonnes which is predicted to reach 12 million tonnes in 2010.

As the Indian market for plastics expands, the need for efficient shapes distribution becomes important. The investigation of the market first carried out by Cadillac Plastics Pacific Group in the 2000's is now being energetically renewed by Mulford Plastics.

If you are still considering the China market for expansion, it is growing more rapidly than originally projected. Add to this the impact of the XXIX Olympics in Beijing on the auspicious date of 8/8/08, less than 500 days away and you have a really hot market.

Thermotec Plastics Pty Ltd based in Melbourne continues to expand its activities in distributing plastics in Australia. The recently opened bypass highway of Albury/Wodonga has seen them complete the sale of 12MT of acrylic sound barriers with material from Quinn Plastics Europe. China Employment Law is in the midst of significant changes and if you need any references please contact Mal Binnie. Asia may soon become one large market as the 21 members of the Asia Pacific Economic Cooperation Forum launched a process that could ultimately produce the largest single act of trade liberalization in history. APEC accounts for more than 50% of the world economy and trade. PC manufacturers continue to grow in Asia with Bayer Material Science (BMS) allocating significant funds to additional compounding plants in China and India throughout 2007/2008. BMS has indicated it will double its capacity in Shanghai to 200,000 mt.

PRICING: BASF increases nylon 6 prices by $0.08/lb in N.A. Increases are also noted for PE, PS and PVC on world markets, with benzene feedstock rises contributing to much of the PS gain. ABS, PP and PET are following the hikes in PE prices with low single digit increases – all told the continuous upward movement of most commodity resins, as well as engineering ones, foretells another inflationary period beginning in 2Q 2007.

DISTRIBUTOR/MANUFACTURER BRIEFS: RTP Company introduces thin gauge PEEK sheet in 2ft x 4ft sizes with a thickness range from .020 inches to .118 inches.
Acrilex Inc. institutes Quality Control Program meeting Military Standard Mil-I-45208A.
Hook and Loop Fastening systems using PEEK being marketed by Aplix Co. in PA.
Bayer Sheet Europe provided Makrolon® PC sheet for the distinctive pointed roof of a shopping mall in Naples, Italy – the size if this atrium roof is 350 square meters.
Ensinger/Penn Fibre develops PPS sheet and roll stock from 0.010in - .250in, up to 50 inches wide – labeled Tecatron® and targeted at some flouropolymer applications.
Palram develops PVC sheet with built-in wide spectrum pathogen killer – said to offer unsurpassed sanitary protection, especially in food processing and hospital applications.
Simona Group, headquartered in Germany continues its double-digit sales growth – 14% in 2006 to 262.8 million Euros, driven by Exports. Earnings, however did not keep pace due to raw material and energy cost increases.
Quadrant Group reported sales growth of 36% in 2006, driven to a large extent by the integration of PolyHi Solidur – earnings also grew at double-digit rates, with its EPP sector leading the way.
Vitasheet Group, Europe's largest thermoplastic sheet producer, at a 250 million Euro turnover, unveils its new R&D center in Germany and plans further capital spending this year.
Metabolix and ADM will produce Mirel™, the globe's first Biobased and fully Biodegradable plastic – a commercial plant, with a start up capacity of 110 million pounds, is underway.
GE Plastics new *Lexan Constant Clear Freezer Film* prevents condensation on doors of refrigerated and frozen food glass door cases – thus saving on energy costs.
Nylon 6/6 with 60% glass loading makes its debut from Techmer Lehvoss Compounds in TN.
Reporting record sales and profits for 2006 are: Grainger, Motion Industries, Rexel Inc., Wesco International, and Kennametal – all general and electrical industrial distribution leaders.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Reports from Reuters on the divestiture of GE Plastics by parent GE name possible bidders as breaking down into two groups: Corporate buyers Basell, Saudi Basic Industries, Koch Industries as well as several Private equity groups including Blackstone, Apollo and Carlyle – decision expected in June 2007 as the second round narrows the field – closing targeted for 3Q 2007.

Basell to reopen idled Texas PP plant with 500 million pounds capacity – restarts 2008.

Senoplast USA, a Klepsch Co. is doubling the size of its manufacturing plant in Mexico – to produce sheet from ABS, MMA, PC and HIPS, as well as combinations of these in multilayer extrusions up to 120 inches wide for use in sanitary ware and many other industries.

Allen Extruders becomes a Sekisui America subsidiary and joins Kleerdex as part of the group.

Aetna Plastics acquires Pro-Fab Manufacturing, a 25 year old fabricator of corrosion resistant materials, and joins Vanguard Plastics to comprise the growing distributor/fabricator business of one of the oldest U.S. plastics distributors – started in 1946 and second generation owned.

Klockner Pentaplast GmbH may be an acquisition target for private equity firm Blackstone.

Altuglas doubles cast acrylic sheet production in France – to service Europe and Middle East.

Spartech to shut Richmond, Indiana plant and shift production to Greenville, Ohio.

Chevron Phillips to build new 22 million pound Ryton® PPS plant in Texas – on stream in 2009.

INDUSTRY INTERVIEWS: …concluding our interview with Nick Kraguljac, Board Member of the Klepsch Group and Director of Sales and Marketing of Zell-Metall Austria, conducted by John Douglas, our special European correspondent who interviewed Nick in Kaprun, Austria.

JD: Nick, what has been the reaction to your new on-line stock availability web site in Europe?

NK: This has been excellent and our distribution partners find it a time saver. Besides availability there is a huge technical data base you can log into. We will be expanding the internet services in the future.

JD: Are you going to show at the K-07 this year in Dusseldorf?

NK: Definitely! This is the global show for the latest developments in the world of plastics. Over 250,000 visitors come to see what is happening at more than 2,500 exhibitors. We have two booths, one in Hall 5 within the Austrian section and one in Hall 8. Come visit us. We have some surprises up our sleeve which we will be unveiling there.

JD: Thanks for the discussion and have you any last comments**?**

NK: We are a mature supplier but are developing partnerships in the Eastern European market and as well as I said before, we are expanding our UK market share. If I look to the engineering stock shape market I think we will see a lot of change in the supply chain, including new competitors from around the world. This is why some of the global leaders are reconsidering or already implementing changes on how to bring product to market. As you know we have been the second company in continental Europe to extrude nylon and one of the pioneers in this field. Distribution has always been good to us. Zell-Metall has very clearly decided that working together with Distributors is and will be our way to market.

JD: Nick, you have been called the "Curry King of Kaprun"…are you still preparing these gastronomic feasts?

NK: Yes when I can get to India or the UK and get the ingredients to make it. Sorry there will be no Nick's Curry on our stand at K 07.

Thank you Nick

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