



“A World of Plastics Information”

MAY 2009
TENTH YEAR

Dear Colleague:

Great Recession?!... we don't know what's so *great* about a recession. However, we are in its midst with **deflation** lurking and **stagflation** looming. Demand destruction is prevalent! This now represents the greatest business challenge experienced by most of our owner/managers in their lifetime. Truly a life-changing event! Of course conventional wisdom has its limits in such an economic environment. Here is what we are forecasting:

- Global GDP growth will continue negative, with a 2-3% contraction in most countries in 2009.
- Inflation is expected to remain steady until 4Q 2009 – expected to rise into 2010.
- Crude oil will rise slowly but steadily to about \$55-60/bbl by the end of 2009.
- Unemployment continues to double digits in 2009 in most countries.
- Business and consumer spending continues flat or negative growth.
- Paucity of credit continues as capital is hoarded by most financial institution despite government pressures and meddling.
- Recession will bottom out by 4Q 2009 and recovery follows slowly in 2010.

Planning for this scenario will require continued cost cutting and the private sector's stimulus (read application engineering and metal replacement with new products in our industry.)

Cost cutting strategies should emphasize consolidation of vendors as well as price reductions for early payment. Insist on a savings guarantee for any new plan or product offered as a money saver...you get a discount for underperformance while the supplier gets a bonus if the plan saves more. Volunteer to do market testing for new products/programs...acting as a pilot can secure free services or discounted rates.

Economic stimulus funds are beginning to flow out of Washington as well as around the globe via the World Bank and International Monetary Fund...construction markets and applications should be the biggest beneficiary as plant and infrastructure expansions begin to evolve. Freeing up of credit by financial institutions will surely follow as the global effort, despite different approaches, begin to stem the erosion of the global economy which looked so dire just a few months ago.

Optimism and confidence are in the air simultaneously with the arrival of spring in the Northern Hemisphere which will offer good contagion, contrasted with the flu virus contagion which appears to be moderating at this writing.

TRENDS: Global trade will contract 12% in 2009...most since WWII. Slowest recovery in Europe and Japan. Growth will be only in construction; rail equipment and pharmaceuticals.

Inventory size doesn't matter if no one buys...our industry is beset with low inventories at the manufacturing level. In an encouraging sign, the Institute for Supply Management is reporting lowest inventory levels since 1982, while new orders rose in March to highest level since August.

Thus, these conflicting economic indicators are resulting in uncertainty which slows growth.

Excess PC and nylon capacity resulting in lower demand trends for these bellwether resins in our industry... recycled PET and PE are showing growth. Beer kegs made of a proprietary polyolefin resin called Polysield® debuts at North American industry trade show – new applications will drive the plastics industry recovery. Plastics search engine called Prospector, as pioneered by IDES will aid the new application initiative at the end user level. Tools such as these need to be promoted in growth markets.

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

How different is the plastics business world of 2009 from that of one/two years ago? Who do we listen to today, who do we believe but more importantly what do we do? Optimism is needed and action and opportunity will ensure success. With the current “swine flu” pandemic medical supply firms will benefit. China’s recent International Medical Equipment Fair demonstrated the potential for US companies. An interesting development in Chinese Law is the action of the Anti Monopoly Bureau in clearing the acquisition of Lucite Ltd by MRC Ltd. The first time China’s Ministry of Commerce has imposed substantive conditions on a Global transaction between Foreign companies operating mainly outside China. Although China will continue as the most cost effective factory floor plastic resin demand will be slow in recovering.

Arnold Mouw Managing director Mulford Plastics ANZ is quoted as planning to increase their Lexan product specialists with the addition of 2 product development engineers. Mulford’s have also increased their Engineering plastic teams in Qld and Vic, and the addition of Politec PC architectural to their range. The receiver for Nylex Ltd has indicated that with no interest being shown in the acquisition of the Group it will be broken up and the 8 businesses sold separately. The Australian market continues to be impacted by the decrease in mining markets, which in turn affects UHMW PE sales, but according to the industry a turn around is imminent. An old Cadillac Plastics tradename RALLOY has been reintroduced to the market by Mulford Plastics. Most Distributors in the ANZ market have reported solid results for Q1 2009 but they are wary for Q2.

Visual Image Expo will be held in Sydney October 22–24, 2009 the perfect market for sign supplies. Singapore has welcomed the expansion of Maquire Products USA as it services the growth in its markets in India and China. In 2008 it reported growth of 100% in India and 40% in China. The Indian government has no qualms with imposing dumping duties on Chinese firms or for that matter any company. Duties up to 223% have been imposed. Mulford Plastics report the production of FROP sheet at their Indian operation. Japanese firms are currently undergoing many changes. Teijin Group has announced they will move away from production of PET film and fibres and PC resin and more into high performance materials. Mitsubishi Chemical Corp are considering exiting from the PS and PC business in favour of more advanced materials, but they have announced the signing of a “strategic business partnership” with China’s Sinopec which will build on their current JV in PP compounding.

PS demand in Japan has slumped and Sumitomo and Mitsui consider it not recover and are planning to dissolve their JV and exit the market. Sekisui continues its expansion in the USA with its purchase from Celanese of the PVOH business, this adds to their purchase of sheet extrusion and their new polyvinyl butyral plant in Kentucky. Chinaplas 18–21 May Pazhou Complex Guangzhou China.

OUTLOOK EUROPE: by **Chris Parry, our European correspondent stationed in the U.K.**

In the UK, the Chancellor of the Exchequer has just announced in his budget that the UK economy will shrink by over 3% this year. In Ireland the “Celtic Tiger” has had its claws pulled and their GDP is forecast to fall by 12% by 2010. However, life goes on. Despite the recession, (depression??), industry continues to change and develop in order to progress and survive.

An “old” product is getting a new lease of life from Bayer. With obvious pressures on the more traditional markets for their polycarbonate film range, Bayer is re-energising their efforts to market “Makrofol Lisa”. A polycarbonate film, in a range of three fluorescent colours, which transmits incident light to the edge of the sheet creating a “corona” type effect, especially evident when the film is thermoformed. Markets being targeted include lighting (obviously), furniture, display and high end fashion labelling. Bayer has appointed Vink Holding as a distribution partner for the Makrofol Lisa product. Overall, however, Bayer has just announced that it has made a loss in its Plastics Division that has contributed to a 45% reduction in overall profits.

Although due primarily to polypropylene and polyethylene market problems, Sabic Innovative Plastics (formerly GE Plastics), is to cut 1000 jobs and re-organise its sales and marketing structure following the announcement of Sabic’s first quarterly loss since 2001.

OUTLOOK NORTH AMERICA: by **Bill Shields, Special Correspondent**

SABIC Innovative Plastics announced job cuts at plants in Indiana and Mississippi and that they will reduce their resin output by 20% by the end of 2009 and signed an exclusive distribution agreement with Ashland Distribution to sell its resin products for all of North America. Solvay Advanced Polymers announced both KetaSpire PEEK and AvaSpire modified PEEK have achieved ISO 10993 biocompatibility compliance for use in limited exposure medical devices and instruments. Spartech Corp. is cutting 260 jobs across all business units on top of the temporary plant shutdowns and temporary pay cuts. This action was necessary as their 1st Quarter FY 2009 sales dropped by 26 percent.

PRICING: PP and PE prices show a slight rebound on tight supplies but no shortages...after hitting record lows in December, March saw a slight uptick in these commodity resins. Most other resins in our industry’s product mix show a continuing deflation, now entering its third quarter. A noticeable exception is Dow’s PC increase of 7cents/lb due to benzene price spikes which is also putting pressure on PS prices which have not moved up yet.

MANUFACTURER/DISTRIBUTOR BRIEFS/ALLIANCES: **Breaking news...** Quadrant AG will become Aquamit B.V. with the public tender offer just announced. This will be a JV of Mitsubishi Plastics and the primary shareowners of Quadrant. The offer price of 86 CHF (Swiss Francs) per share represents a US \$180 million est. price. A long established relationship between Mitsubishi and the predecessors of Quadrant existed in Japan as Nippon Polypenco Ltd. Mitsubishi Chemical also announced a strategic business partnership with China’s Sinopec to produce PC and BpA. A new thermoformable PC sheet from Altuglas Intl. called TuffakXL, said to offer better light diffusion. SABIC announces first quarterly loss since 2001 (when it was GE Plastics) and cuts 1000 jobs as recession takes toll. Quadrant EPP expands product line to include machinable high temperature nylon shapes...Nylatron 4.6 is produced from Stanyl resin from DSM. JM Eagle now extruding corrugated HDPE pipe... into a growing construction market. GEHR now offering 4 foot wide acetal sheet in 10 foot lengths. Bayer MaterialScience realigns its resin distribution strategy – also reports successful PC automotive glazing car wash abrasion test. Rochling launches new prepaid freight program...another sign of the times. Victrex reports lower PEEK sales for the first time...its Invisio biomaterials business up 50%. Decorative laminated PC sheet for aircraft interiors is new from Boltaron using Lexan XHR6000 from Sabic IP.

INDUSTRY INTERVIEWS: Charlie Crew, President and CEO, SABIC Innovative Plastics.

Charlie previously held top management positions at the predecessor of SIP, the former GE Plastics, including the GE Plastics sheet business in the 1980's. He also led LNP, Noryl, Valox, Cyclocac and most GE Plastics businesses. Charlie is a graduate of Villanova University. We interviewed him at his office at Pittsfield, Mass.

Q. It's been more than a year since GE Plastics changed to SABIC Innovative Plastics. What effect has this had on your company?

A. *From day one, SABIC Innovative Plastics has had the full support of our parent company, SABIC. As you probably know, SABIC is number one in the global petrochemical industry. They value our business because we play an important role in their mission to become a larger and more diversified specialty company, and a bigger global player. By combining our outstanding legacy of innovation and portfolio of world-class engineering thermoplastic products – with the stability, and long-term commitment from SABIC – we are increasing our global competitiveness; improving the growth of our business and our customers' businesses; and continuing to deliver innovative, high-quality material solutions.*

Q. What have been some of the other key changes at SABIC Innovative Plastics as a result of the acquisition by SABIC?

A. *In addition to increasing our global competitiveness, the acquisition has allowed us to focus even more intensely on meeting customer needs and bringing to bear our more than 75-year legacy of unequalled product innovation to help them succeed. SABIC's unyielding support is helping us continue to deliver even better higher performing products; significantly strengthening our global presence; and better positioning SABIC Innovative Plastics as a long-term partner with our customers. Our parent believes strongly in our strategy of leading in the development of the most innovative plastics in the global marketplace, which is what we are doing.*

Q. There's much talk about the green movement in business today. How has the recent initiative to "go green" affected your business? What is your strategy for biopolymers, if any?

A. *SABIC Innovative Plastics' environmentally responsible solutions demonstrate our commitment to meeting environmental challenges and helping our customers grow their business and succeed. We generally look at "sustainability" holistically and are considering biopolymers side-by-side with a range of other eco solutions as we focus on the future. An excellent example is our Valox iQ* resin. Valox iQ products are made with polybutylene terephthalate (PBT)–resin derived from post-consumer plastic waste (discarded PET bottles), using a proprietary recycle process, giving it a carbon footprint that is 50 to 85 percent lower than other engineered thermoplastics. It also extends the useful life of a polyethylene terephthalate bottle to 20 years. Valox iQ resin consumes less energy and yields less carbon dioxide than traditional resins through its entire manufacturing process – from cradle to gate. We're now using the resin in a range of industries, including consumer electronics, computers, automotive, transportation and furniture. Valox iQ resin demonstrates SABIC Innovative Plastics' dedication to practical eco solutions that can help improve the environment (and our customers' success).*

Q. Can you give me an update on your biopolymers activity?

A. *Although we have programs underway, these are highly confidential so I can't really go into detail. What I can say is that bio products are important to us and our customers and we continue to actively review these – along with other promising green technologies – based on life cycle assessment principles and our ability to innovate and diversify into other sustainable product sectors. We've devoted considerable work on the durability of our materials and the lasting nature of the end products that use our materials which in itself helps reduce excessive carbon footprint. We've also worked to reduce halogens in our flame retardant materials. And through design, we've helped customers take weight out and reduce energy consumption. Meeting our customers' needs by capitalizing on our more than 75-year legacy of product innovation is our top priority.*

...to be continued in the June 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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