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

NOVEMBER 2008

Dear Colleague:

Global grimness gyrates growth…the month of October, just ended, plunged all of us on the globe into the most uncertain and dangerous economic crisis in living memory. The story has been related across international boundaries and in numerous media accounts, but we are going to attempt to put the causes and more importantly the prognosis into perspective as it relates to our plastic semi finished shapes industry. Will growth pause? Will it resume? What are the prospects for continued inflation in prices? How to ride out the turmoil in credit markets? How to obtain funds for operating and progressing into new markets?

- Lock in supply contracts now as prices fall, bottoming out in by mid 2009…hedging using futures contracts for resins (just added to U.S. mercantile exchanges in New York and Chicago) as well as shapes.
- Secure lines of credit with financial institutions
- Negotiate pay for performance contracts for core employees
- Focus on MRO applications and budgets as new equipment purchases dry up
- Consider factoring by selling receivables for cash on the spot or microloans

No increase in business spending is expected until 2010 (housing will not recover completely until 2012) when the global credit crunch eases. Few equipment purchases and only essential repairs will be common. Companies will stockpile cash for emergencies, since loans will be hard to get – hindering the technology sector. Economic sylogism abounds as the dreaded global…global…global recession is here!

We are expecting oil prices to level off at $70 per barrel in early 2009 after tumbling as low as $50 next month. This bit of good economic news (rare in 4Q 2008) should trigger some additional benefits in lowering plastic feedstock commodity prices as well as ameliorate some shipping cost increases. However, since there are not enough cargo ships being built creating a shortage by 2011 which will trigger shipping rate hikes of 8-10% in the 2010-2011 period.

Borrowing will be difficult for most companies…at any interest rate. This lingering credit tightness will also make recovery from the recession tougher – some companies that typically weather such downturns won't make it this time…we are already seeing Baker Plastics close.
All this makes managing cash flow more complex yet more important than usual.

TRENDS: Pricing software is an idea whose time has come. Several major distributors are using or contemplating use of software that tracks market pricing by product and competitor in specific geographic markets…includes history as well. U.S. engineering plastics demand to reach 5.4 billion pounds in 2012, with PC leading the way, growing 3.8% per year and replacing ABS in the top spot…according to new research from The Freedonia Group. Bioplastics are expected to grow at a greater rate but only reaching 300kt globally be the end of this decade. U.S. commodity exchanges will begin trading futures in HDPE and PP this month, following London's lead.

OUTLOOK EUROPE **…By Chris Parry, European Correspondent, embedded in the U.K**
Very sad news for all those involved in the European Specialty Films business. Jan Koole, the Managing Director of Sabic-IP Snij-Unie, (formerly, and better known as HiFi Snij-Unie), died on Sunday 5 October after a very short illness. He will be missed by all who new him.
The approaches of governments around the world to at least part nationalise the banking system seems to have steadied the situation, but the initial signs are that the availability of credit and loans is not getting any easier, (the next few months may see a relaxation of this, albeit at higher interest rates). Stock markets and currencies are reacting with their usual volatility. In addition to the direct impact, the ability of businesses to reasonably accurately forecast their performance over the next few months is almost non-existent.In the UK, the British Vita/Doeflex group, (over 80 companies producing PP and PVC products), have all gone into members voluntary liquidation. However, the forecast is that all creditors will receive 100% of their substantiated claims, and the companies appear to be continuing to trade.

OUTLOOK NORTH AMERICA**…By Bill Shields, North American Correspondent**
The overall market condition that our industry sells into continues to be OK. Things have dipped somewhat but only in the single digits. The big economic impact felt throughout North America has not immediately affected our Industry. The resin costs of PP, PE, PS have stabilized this month. Since the first of the year the cost of energy (power and electricity) to the manufacturing sector has jumped as high as 30% and beyond. This also has and will continue to impact fixed costs on the manufacturing as well as distributor sectors. Things are not the best but they are certainly not the worst.

Every 2 and 4 years, Americans elect new leaders. Every 4 years we elect a new President. This year we see inflation at high levels. The USA continues to lose jobs across the board. Job losses this year exceed 760,000 according to the government. The stock market chart looks more like a heart monitor than an indication of consumer confidence. Energy, industrials and materials stock prices have all dropped over the past weeks. The GDP (Gross Domestic Product) was 0.3% for the third quarter of 2008, the worst showing since 2001. A more significant drop is expected for the fourth quarter; but then an insignificant drop is expected for the 2009 calendar year. This is a key measure of US economic output.

We continue to hear about the importance of energy for America's future. There are many new focuses to grow business. Wind, photovoltaic energy, water, coal to liquid, nuclear power, ethanol and biomass fuels. All of these new venues will give our industry innumerable ways to grow as new applications come on board. The major developments will continue to be spearheaded by both the resin manufacturers and the processors (injection molders, extruders and compression molders). I predict that thermoplastic pricing levels will stabilize for the near term but an unforeseen natural or unnatural disaster would change this..
Laird Plastics has added a Market Development Manager (Paul Hanson) in the Mid West to focus on increasing sales in newer markets………… Larry Miller has left Nylacast and apparently joined the newly purchased Global EPP Schwartz effort in North America.

OUTLOOK ASIA**…by Mal Binnie, our Pacific Rim correspondent embedded in Australia**
The effect of the worldwide credit crunch has hit just as hard in the Pacific as it has in Europe and USA. However with the price of assets falling but future value retained, many acquisitions are underway. Japan is very active - as reported last month Mitsubishi Rayon set to buy Lucite International and now we have Sumitomo acquiring Jiuh Mei Taiwan, cast acrylic sheet producer. Juih Mei one of the largest sheet producers in Taiwan with a 40-year history and a worldwide network of customers. Sumitomo have MMA production capacity of 220,000 MT in Singapore and in late 90's acquired Acron in Bangkok now named Sumipex. Mitsubishi is also acquiring Lamson and Sessions USA PVC pipe and extrusion business.

The use of plastics in China's first spacewalk included the face panel of Astronauts helmet … PU foam for insulation in walls and bulkheads ..valves for spacesuits. China Plastics Processing Ind Assoc held a meeting in Chongqing of its Sustainability Committee with a focus on the sustainable use of Plastics in the automotive industry. Speakers from America included Ticona, Albermarle and Ford. Chinese plastics processors, losing orders from overseas, are buying less resin and stocking lower inventories. Japan, which sells 68% of its resins to China, has seen exports drop by 45% this year. SK Energy Korea also reported a 35% drop in sales to China.

The global downturn appears to be costing more jobs in China than elsewhere in Asia/Pacific. Chinese local governments used to support low profit labour intensive industries to maintain employment. But not now! What is ahead for China? Stimex Corp of Taipei a well known worldwide distributor of plastic products has announced that Emilie Chang has decided to explore new opportunities and is replaced by Emily Wang. The company President Steve Liang praised Emilie for her contribution to Stimex over many years..Last month the plastics industry mourned the loss of YC Wang, 91, who built the Formosa Plastics Group. He was still active in the business until his passing and leaves an incredible legacy. The management group he set up in 2006 will continue to run the Company.

Australian importers have been damaged by the sudden fall of the $A versus world currencies. The $A fell from US98c US60c in less than 4 months and prices, particularly sheet imports, have jumped. Arnold Mouw, COO Mulford International, points out that some acrylic sheet prices have risen by almost 50% since late July. EPlas Pty Lty has announced the appointment of Gino Valente as Group Operations Manager. Mr Valente has been part of the company since its opening 27 years ago. They also announced the appointment of David Marshall as NSW Branch Manager . SKC Haas Display Films has opened its plant in Poland to produce optical polyester films and foils for LCD applications. SKC Haas is a JV between SKC Ltd Korea and Rohm and Haas USA.

PRICING: After years of rising prices for most commodities, November begins with the first softening, especially in polyolefins – the reversion of oil prices are causative. Selectively, some HPM and ETP prices will continue to rise albeit at single digit rates as costs dictate. At this critical junction it will be incumbent on producers and distributors not to abate their current pricing levels as profit requirements remain…the airline industry is such a model as their "fuel surcharges" have not been rolled back with the lowering oil prices.

MANUFACTURER/DISTRIBUTOR BRIEFS: Plaskolite and Eastman Chemical agree to market new Tritan™ copolyester resin converted to Mustang™ brand sheet. Bayer introduces
Bayblend® FR 3030 – PC/ABS alloy for use as thermoformable sheet for rail vehicles. Mitsubishi Rayon on verge of acquiring Lucite International from Charterhouse Capital.
Evonik to triple capacity of Plexiglas extruded acrylic sheet in Russia

INDUSTRY INTERVIEWS: **Sebastian Gehr, President, Gehr Plastics, Inc, USA**

Sebastian, born in 1975, father of a 2- year old son, has an MBA from Germany and worked in related industries in China and Germany before becoming President of Gehr USA. We interviewed him at the recent IAPD conference and at his office in Boothwyn , PA.

Q. How does your appointment as President, Gehr Plastics Inc., USA affect your business life? Personal life?

GPL. Relocating to the States and becoming a resident of Pennsylvania, certainly totally changes my life. But it is a great opportunity to take over responsibility here in the States, with my father being still a strong support as CEO of GEHR worldwide. Of course I´ll be missing original German Pretzel rolls and Bavarian weed beer…

Q. How will Gehr Plastics USA be different under your leadership?

GPL. According to a German soccer saying, the best supervisor is the one that manages to lead with invisible hands. On the other hand, due to unforeseen events my father became the acting President of GEHR Plastics 2 ½ years ago. As he manages from our world headquarters in Europe, it´s less likely for me to remain that invisible. My predominant objective is to shift the focus within the GEHR group more towards the emerging markets in North America. We will do this remaining the loyal partner to distribution that we are known for throughout the world.

Q. How does being the 4th generation Gehr affect your decisions as President of Gehr USA?

GPL. I´ve been raised with the credo that family-owned companies need to think in longer terms. We trust in good business relationships with customers, suppliers and employees and I am really glad and thankful that during my first business trips here in the States everyone loves dealing with Alma, Chris, Doris and Karla of our customer service team. We will maintain the spirit we have as a mid-sized company with short decision routes and a thus highly motivated staff. Long-term members like Myra Carroll (Corporate Treasurer Secretary) or Dennis DiPietro (VPO) are the"living evidence".

Q. Is your background more business oriented…or is it technical?

GPL I hold a German equivalent to a MBA degree and surely will need to learn a lot about plastics. I am positive Bill Shields (Vice President) will be a good teacher as he seems to find applications for plastic stock shapes even in his dreams …

Q. How is business this year versus 2007?

GPL We´re lucky with out recent expansion, introducing our Acetal rods and sheets into the market. Hiring Joe Aleszczyk as our first field salesman even turned out to be a home run. (Joe was a former professional baseball player in Europe.) Also our new rep organization in the West, Harker & Associates, is doing a good job. Without these changes we surely would have stagnated in these uncertain times.

Q. What will be the most important products for the balance of this decade? The next decade?

GPL We will continuously increase our product range, being a well-stocked, reliable, family-spirited supplier with rods from PVC, PP, ABS to Acetal to PPS and PEEK and sheets from ABS, Acetal, Kynar up to PEEK. We certainly hope to thrive in the future with our new product line, ECOGEHR, being the first processor in our industry of bio-based engineering plastics. Our distributors will help us with the rest of our direction. We appreciate open communication.

…to be continued in December 2008 issue

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