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

OCTOBER 2006
IAPD ISSUE

Dear Colleague:

Symbiotic synergism surrounds …this 4th Quarter of 2006 is going to demand unprecedented cooperation from all sectors of our industry to assure continued growth in 2007. These were some of the most cogent themes arising from the 50th anniversary IAPD convention held in Vancouver, Canada last month. Despite 50 years of debate as how manufacturers and distributors can work together, it seems no solution was ever found. At a session at IAPD convention, Michael Marks offered the solution to the question: " Are Distributors and Manufacturers working at Cross Purposes?". To see some answers go to: www.ircg.com and plug in password: iapd2006. Simply stated he contends that there are basic differences in objectives and empathy goes a long way.

Some other IAPD convention highlights are:

- Versamount's Roll Panels of extruded PP introduced for the display market
- Gallina PC dome skylights and storm panels made debut
- CS Hyde showed its high performance film line – 20 HPM's included
- Delstar showed its Coretec line of rod, tube, pipe and netting
- 61 other suppliers exhibited an array of new and improved products
- 600 delegates to this 50th Anniversary Convention
- 7 Educational Seminars and Workshops presenting a variety of germane topics
- IAPD's History presented to attendees in a published volume "The First 50 Years"

Since the economic horizon is a murky one, it is best to prepare for some slowing in 2007. Figure on a year of slow economic growth…2.0 - 2.5% following this year's 3.4% increase. More significantly, plan on profits roughly half of this year's gains, due to continued pressure on costs. Interest rates will hold steady and business spending will climb a bit to 8% fueled by expansion.
As for energy, the wild card, plan on a mild easing in prices especially crude oil which should stay below $70 a barrel – 3% below this years average.
Some relief is in sight for shipping costs but that only results in a *slower* increase in rates for air, truck and ocean shipments. Telecom and postage rate increases will moderate but proliferate.

TRENDS:

Home Depot Supply continues to acquire industrial distribution companies, primarily in the electrical and plumbing supply sector (spending over $6 billion in the last two years) and if fact have changed their name to HD Supply. Diversifying into more business-to-business is a logical way to hedge its core retail business; with sales expected to reach $27 billion in sales by 2010 – up from $12 billion today, all through acquisitions.

Some important distribution industry indices, such as Purchasing Managers Index; Industrial Production; Productivity and Durable Goods Orders showed little or no change from August to September, 2006, further indications of slowing but steady supply chain progress for our industry.

A news story appearing in the Wall Street Journal of Sept. 13, 2006, headlined "Deadly blaze exposed danger of plastic balcony partitions used on dozens of (cruise) ships" has caused consternation among producers of PC sheet. Further a quote from a representative of Underwriters Laboratories stated "the plastic used in the balconies called polycarbonate is highly flammable because like most plastic, it's derived from crude oil" seems irresponsible. At publication time, we were awaiting responses from the major PC resin and sheet manufacturers and the suppliers of the partitions for cruise ships are unknown, but undoubtedly will surface. NOTE: GEP response: "No comment at this time."

Top 10 sheet manufacturers listed in *Plastics News* 2006 North American survey, had Spartech Plastics at No. 1 with $926.6 million sales. Following in the rankings were Primex, GE Plastics Structured Sheet, Lucite Intl, Arkema, Sheffield and Plaskolite – all at $150-350 million sales.
Film demand is expected to reach 15.2 billion pounds in 2010 with LDPE and PP leading the way and packaging of course representing about 75% of the total. Sheet and film continue to grow at a 6% rate quarter over quarter into 1Q 2007, according to *Modern Plastics Worldwide*, auguring positive news for our industry for the balance of this decade.

Incessant price increases have set the stage for much needed innovation in our industry to develop new materials and processes to start reversing the spiral and begin to have productivity lead the way to producing products which will accelerate the drive to replace metals and other traditional materials. Whether it be nanotechnology or biofuel based polymers, the time is now for breakthrough products and applications to prepare our industry for the growth that the next decade will demand for the relevancy of our corner of the global plastics industry. Who will step up? No longer can we claim that our basic sheet products are, when inflation adjusted, selling at prices similar to the latter half of the last century. It is time for truly new product development!

PRICING:

Speaking of incessant price increases, October brings a new round led by ETP's , PS, PP, PVC, ABS and PE. Of greatest significance to our industry is the announcement by DuPont, BASF and Ticona of October increases in nylon, acetal, and polyesters. Acrylic is not exempt from this inflationary spiral either, with the announcement by BASF of higher acrylic monomer prices…usually foretelling increased acrylic sheet prices. All this is taking place in October, setting the stage for a new round of negotiations with users at the peak selling season for most in our shapes sector. The last round of price increases encompassing so many resins was in June of this year. Once again soaring benzene prices are contributory to many of these hikes, especially for PS and PC. Of some consolation is the fact that most metals continue to rise in price. Most forecasts are for these price trends to continue into 2007 and not abate until the oft-predicted recession of 2010…too far ahead to see any clear picture or do any definitive planning.

OULOOK ASIA: By Mal Binnie, our Pacific Rim Correspondent.
The military coup in Thailand has not caused any disruption to the local plastics industry.
Mulford Pty, Ltd has opened its new office in Tsuen Wan, Hong Kong.
High Performance Engineering Plastics Conference, takes place October 9-10 in Singapore Plastics Issues Council in China is urging the Chinese Government to boost recycling systems.

DISTRIBUTOR/MANUFACTURER BRIEFS:
Sumitomo Chemical has released its LCP, called Sumikasuper that operates continuously at 260° Centigrade and its 200° C PES Sumikaexcel.
GE Plastics and Allen Extruders have teamed up and are marketing the Alextra family of PC sheet, featuring a weather resistant co-extruded PC capstock and are targeting the transportation industry, and bus panel applications. Seeger Metals and Plastics is celebrating its 125th year.
Quadrant reports 1st half 2006 results with a sales increase of 10% (does not include the acquisition of PolyHi Solidur) with concomitant profit results- its EPP sector is dominant.
Spartech 3Q sales and earnings results are in – single digit year over year increases.
Ticona declares force majeure on its UHMW-PE products manufactured in Europe.
JV of Bayer and GE, Exatec, receives prestigious technology innovation award for PC glazing.
Piper Plastics uses Victrex T-series, a blend of PEEK and PBI Celazole for robot pads (hands) in the semi-conductor industry, replacing metal. Sheffield Plastics division, Bayer Films Americas, releases new 10-page brochure describing its PC film line, called Makrofol and Bayfol.
Grainger opens its first facility near Shanghai, China – called Master Branch, stocks 20,000 items.
Brady Identification Products sales top $1 billion for the first time as 2006 sales rise 37%.
Degussa using nanotechnology to improve scratch resistant properties in MMA sheet – also allows laser welding, without affecting transparency – expected commercially by 2010.
Curbell Plastics puts its entire catalog on a DVD, called Full Line Materials Guide.

MERGERS, ACQUISITIONS, DIVESTITURES, ALLIANCES AND EXPANSIONS:
General Electric sells its GE Advanced Materials Unit (silicone and quartz materials), with sales of $2.5 billion and 5000 employees, (did include jv's with Toshiba and Bayer Silicones), for $3.4 billion to private equity firm, Apollo Management LP. GE Plastics is **not** included in this transaction and in fact is ***not*** for sale, according to Jeff Immelt, CEO of GE and former GEP sales and marketing executive. There was some initial confusion since GEP was once part of GE Advanced Materials business but was spun off subsequently and has been free standing.
Apollo now owns Borden Chemical as well as Tyco's plastics business and Berry Plastics.
Cast and extruded acrylic sheet producers Resarbras and Plastiglas de Mexico are now all part of the Unigel Group, headquartered in Brazil with a U.S. presence in Delaware.
Rowmark is sold to private investor – will continue to operate this extruder of sign materials.
Plastics Daily News reports the following expansions: Arkema to double nylon production in China; Honeywell to expand caprolactam capacity in the U.S.; Solvay to build PVC plant in Russia; Invista building nylon 6/6 plant in China; Degussa to boost MMA capacity in China with partner Shanghai Chemical; Sumitomo expands its PES production in Japan by 20%.
HD Supply buys another electrical distributor, Canadian based Grafton Utility Supply, while Motion Industries buys two industrial distributors in Louisiana.
Ferguson buys two plumbing and heating and water works distributors in central and eastern U.S.
Kommerling USA greatly expands its plant in Alabama, U.S. for foamed PVC sheet and trim.
RTP Company acquires specialty film manufacturer Wiman Corporation – PVC, PU and polyolefins are the primary products produced and will be combined with RTP's sheet unit.
Rexal follows its buyout of GE Supply by acquiring two more electrical distributors in the southeastern U.S. and eastern Canada – adds $77 million in sales…now has 1900 branches.

INDUSTRY INTERVIEWS: Helmut Gehr, CEO, GEHR Plastics, Mannheim, Germany. Helmut is a third generation owner of his company that was founded in 1932. We interviewed Helmut in person at the IAPD Convention in Vancouver, Canada, September 15-16, 2006. (Bill Shields, VP Sales, was also present.)

Q. How would you describe this year's global business climate for GEHR Plastics? Compared with last year? How do sales and profits look for 2007?
A. Business is better this year – in line with our expectations which were to achieve an 8-12% increase in revenues over last year. As for 2007, I am optimistic and hope to duplicate this year's growth at around 10%. We will be satisfied with that, but resin prices will be a problem, with regards to achieving profits in line with our goals.

Q. How much inflation in your prices affected sales results? How do you advise customers of price changes?
A. I would say there was no effect, since we measure our production in pounds or kilos. Despite resin price increases, and because we strive to constantly operate more efficiently, we have been able to hold back on passing along price increases. Of course, it always depends on our competition and there is always a time lag of several months between the resin increase and its effect on rods and tube prices.

As for pricing notices, we do not have printed price lists yet but they will come soon, nor do we post prices on the Internet. Rather, we quote prices on the phone…we like to talk to our customers!

Q. What new products show the most promise for the balance of this decade?
A. Acetal rod, among the largest diameters made by anyone, as well as 30% Glass Filled Polypropylene (the highest percent loading of glass fiber that we know of), very large diameter (2 inch - 8 inch diameter by 1 meter) extruded clear acrylic rod, and of course rod for cosmetic packaging as well as for writing instrument pen barrels such as the Mont Blanc and Pelikan Pens. In the 21st century we must use the newest technology in communications and marketing to tell about our company and its products. We have a new web home page coming this October.

Q. Any expansion plans between 2007 and 2010?
A. We have plans to expand our plant and buy more extrusion lines. We currently have 24,000 square meters and 70 extrusion lines in Germany. We will be adding to that in order to keep up with the growth in our business, both now and in the future. Our other facilities in other countries will also expand as the market dictates, but definitely in North America within the next 2 years, as well as Europe.

Q. How can manufacturer-distributor relations be improved?
A. With better communication and closer contact any differences can be worked out and the common interests will of course be most important.

Q. Who are your major competitors?
A. For the semi-finished, stock shapes business, they are Harvel and Westlake in North America and globally Simona. Quadrant, Ensinger, Sustaplas and a few more on a global basis. There are other competitors for our specialized PVC, PP and acrylic rod business such as the product we supply for pen barrels that are used in Mont Blanc and Pelikan pens. We also supply special tubes for cosmetic packaging and there are several companies that compete with us for those applications. By the way, in Europe we say "semi-finished" products and in North America it is "stock shapes" , although you used to call it "sheet, rod, tube and film".

...to be continued in the November 2006 issue.

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