



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

OCTOBER 2007

Dear Colleague:

Backlog buoys business...reports from manufacturers and larger distributors hint at some backing off by buyers entering 4Q 2007. With business investment slowing, inventory is being cut in some industry sectors. This, of course, is reducing both the size and frequency of orders being experienced in some geographic regions. Since backlogs are near record levels, any recession talk seems premature for our industry. Still softness looms with economic growth through early 2008 estimated by some normally reliable economists in the 1%-2% range – will seem slow compared to the 2%-3% pace of 4Q 2007.

There are many robust sales opportunities that should provide a bulwark against a more severe economic downturn – export-oriented sectors such as Plastics, Electrical machinery, Nuclear technology, as well as a variety of Energy and Security devices.

Expect inflation in 2008 to slow slightly from this year's 2.7% rate...interests rates should steady after the most recent cuts. Business spending, always a key indicator, will rise just 4% next year, essentially unchanged from 2007. Failure by companies to get short-term financing will delay equipment purchases. Profit increases, year over year, will slow to 3% next year, after a 7% jump this year. It will definitely feel slower.

Of course, looming over the 2008 scenario is the price of oil, most recently setting records continuously at or over the \$80/barrel benchmark. A year ago, the \$60 price seemed outrageous and now some experts are predicting the price could approach \$100! As these energy costs skyrocket, they pull other costs up with them...gasoline, heating oil, natural gas and electricity. Thus we expect plastic resin prices to continue their upward movement indefinitely, and coupled with the cost of energy burdening businesses, there is no end in sight for price relief by the user-customers in our industry.

TRENDS: October is the month for the K Fair, the major triannual international exposition held in Dusseldorf, Germany...this year from Oct 24-30. Nearly 3000 exhibitors are presenting their newest products and services, and with 10,000 visitors a day walking around almost 3 million square feet highlighting the entire global plastics industry. We will be covering trends that are relevant to our world-wide semi-finished (shapes) plastics sector. Look for all the details in our November 2007 issue, as well as interviews with some key attendees.

There is a new report out describing and forecasting the extruded plastics sector – it's from Freedonia and predicts a 2.7% annual increase by 2011. This translates to 40 billion pounds of resin to produce sheet, rod, tube, film and pipe and augers a short- term favorable economic climate for our corner of the industry. Construction applications with PP products are expected to exhibit the fastest growth - these are some of the key trends and forecasts from this report.

The prospect of \$100/barrel oil by 2008 is prevalent in the thinking of most economists, and the effect on our industry is significant. First of all, it will fuel the buying power of Middle East companies (think SABIC and others). Secondly, it will inflate polymer feed stocks, such as benzene and ethylene, thus leading to chronic resin and shapes price increases for the balance of this decade — again leading to slowing of the buying cycle as costs are compared. Meanwhile resin capacity emanating from the Middle East is expected to increase dramatically, due in part to its access to low-cost feedstocks and export opportunities in China and India. By the end of 2008, we should see some backing off of crude oil prices (of course always with the caveat of no major political and/or terrorist related incidents) and thus the cycle resumes in preparation for a long anticipated and predicted major recession by 2010. This is always in the background due to some sound demographic, economic and political events expected by the end of this decade.

Some interesting demographics affect the inveterate challenge of “finding good people”: - the average age of an employee in an industrial distribution company is 46, while in a manufacturing company it is 56, just about the same age as the typical purchasing professional in industry. The time has come for distributors in our industry to establish internship programs as well as to begin recruiting from community colleges.

PRICING: In a word...UP and UP again, across the board price increases prevail with some significant (to our industry) ones being nylon, PE, and PP. Feed stocks for these key resins will again be pressured by oil rising and thus the inflation we are seeing will continue into 2008.

OUTLOOK ASIA: by Mal Binnie, our Asian correspondent, embedded in the Pacific Rim.

ARKEMA group has unveiled plans to expand its Asian operations and increase its sales in the Region by over 50% by 2012.

CHINA

On August 30 the Employment Promotion Law was passed and will take effect on January 1, 2008. For companies operating in China it is critical to understand the implications of the new laws which expand antidiscrimination protection for employees/job applicants and increases the risk of legal liability on companies. Additionally, China was protected from the US sub prime mortgage crisis by its policy positions and economic structure.

DSM Engineering Plastics plans to double its sales in China with new products. They are reported to be investing heavily in both China and India. Blackstone Group, US investment house continues its plastics growth with a \$US600 million stake in China - National Bluestar Group.

AUSTRALIA/NEW ZEALAND (ANZ)

Breaking news in Australia is the announcement by Dotmar Plastics that Price Waterhouse Coopers have been retained to coordinate the process of reviewing offers for the Company from International sources. On September 28th staff and suppliers were advised of this action, which is expected in 2-3 months.

Mulford Plastics have announced the appointment of Ms. Lydia Swan to the newly created position of Marketing Manager for ANZ.

Thermotec Plastics, Victoria have announced their exclusive distribution of Laserlite sheet manufactured in Australia with Makrolon Resin.

The MBO by the York Plastics Sydney team continues to show positive results since it was announced earlier this year. CEO Chris Salmon reports successful results following this return to private ownership, this reflects the success of the company in its earlier days as KLite.

Halifax Vogel Group (HVG) announced its acquisition of Alucobond Architectural and Octanorm Australia. HVG has warehouses in most major Australian cities plus Auckland and Bangkok. Composites Alucobond, Dibond, Forex and Kapa are a natural fit for HVG.

INDIA

With a per capita consumption of 4kg of plastics, India will consume 7 million tonnes of polymers in 2007. Plastvision India to be held at Goregoan, Mumbai 6/10 December 2007 expects 800 exhibitors and spreads over 40,000 sq.m.

On a sad note, I received this shocking email from John Douglas' partner Ann Potter on Sunday Sept. 30, 2007:

I am afraid it is with great sadness that I have to tell you that John Douglas died on the Greek Island of Spetse on Wednesday 26th September

John Douglas (1942-2007) - In Memorium (Editors Note: Further details in our November 2007 issue)

Back in the 70's an Aussie and a Canuck played off for the Cadillac Plastics Singles Tennis World Title in Cass City Michigan and that was the start of a 30-year friendship between myself and John Douglas. John I will really miss you. Mal Binnie

DISTRIBUTOR/MANUFACTURER BRIEFS:

Modern Plastics, CT, launches new website for e-commerce and excess inventory sales, at www.modernplastics.com - once again taking innovative internet steps.

Prisma Plastics International, the year old Canadian alliance between Redwood Plastics, Warehoused Plastic Sales and Plastique Alto/Polyfab progresses to the point of consolidating some management functions and has posted a General Manager position.

Schwartz Technical Plastics, cast nylon producer based in Germany moves to new U.S. plant.

Sabic Innovative Plastics' (SIP) CEO Brian Gladden states that no big changes scheduled for short term and that jv Saudi Kayan's, new PC resin plant, will operate as separate business.

Lucite International is approaching completion of its new plant in Singapore that utilizes the novel Alpha technology to produce MMA – to be a 120,000 m.t./year unit.

GEHR Plastics marks its 25th year of U.S. production – expands warehouse and introduces new products including PP rod with 30% PET fibers, as well as ABS and acetal plate..

Primex loses 1.4 million pounds of PP and PE resin in a fire at one of its plants.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

ACI Plastics purchases assets of Plastic Sales & Manufacturing to become ACI Plastics & Manufacturing – management remains and 5 branches result from this transaction.

DSM to sell its EPDM business and concentrate on nylon and polyesters.

ThyssenKrupp Materials (TKM) continues its expansion opening 2 locations in the UK, to be known as TKM (UK). ThyssenKrupp Schulte opens its new 3000 sq meter warehouse in Mannheim, Germany, to include plastics – annual revenue (including metals) is €2.5 billion.

Boltaron invests \$3 million to expand PVC calendaring line – capacity to exceed 75 mm pounds.

Spartech buys Creative Forming, extruder of materials for thermoforming – pays \$61 million.

Evonik Industries, formerly Degussa, breaks ground for new MMA plant in China.

Arkema invests in new PVDF facility in China – startup planned for 2011.

PEOPLE: Dan Quinlan, G.M. Sheet Products CYRO Industries is retiring. Steve Costanzo succeeds him at Sheet Products for this unit of Evonik Industries (formerly Degussa), reporting to John Rolando. All other management remains. Deborah Hamlin, formerly Exec. Director, IAPD, appointed to board of directors of NAW. Vital Polymers appoints Steve Leonard as Manufacturers Rep. for 6 mid-west U.S. states. Bill Minogue joins Simona USA. Dave Pincin has resigned from Penn Fiber/Ensinger.

***In Memorium...** Gordon Noakes, founder of E&V Plating and Miracryl, and the pioneer of the Plastic Mirror Industry, passed away in early September 2007, after a long illness. Gordon, who was born in Canada and earned a Ph.D. in Physics, developed the plating process, which led to acrylic and polycarbonate mirror production. He sold his company to Plaskolite some years ago. He was a brilliant and warm individual who will be missed.*

INDUSTRY INTERVIEWS: continuing our interview with **Dave Huston**, President of Olson Manufacturing and Distribution.

Q. If you had unlimited resources, what change would you make in your business?

A. I would probably devote greater resources to employee training. Not just general product knowledge training but educating our staff on how to identify specific industry needs that can lead to the development of proprietary products. We have done this before and the margins are substantially better than routine stock shapes distribution or basic fabrication. However, identifying those needs and spending funds on the R&D that goes with the product development and marketing is tough. However, as a regional distributor, that is where we are focusing. I am also looking at some materials that don't necessarily come from the traditional plastics industry but which fills specific needs of our customers.

Q. Where did you go on your last big trip and what was it like?

A. That is an easy question. I am quite active in Rotary International and was fortunate to be selected as the team leader for a program called Group Study Exchange. After several months of training, my team and I visited Mumbai (Bombay) India from January 5th to February 4th. This is a cultural, vocational, and educational program to encourage greater understanding between people of different cultures. Obviously you cannot see a city like Mumbai (19 million people) let alone a country (1 billion people) in just 30 days. But the culture, religion, exposure to business practices, and immersion in the lifestyle was fascinating to me. I also appreciate the fact that my wife, Cindy, was able to run the business effectively and my staff stepped up to take care of operations. (Do you think she would let me travel on a 2-month trip?)

Q. What is the most misunderstood aspect of our industry?

A. Defining who the customer is in the supply chain continues to be a thorn in my side. Suppliers often state that the end user is their customer so I guess that makes distributors a speed bump on their road to greater sales. Suppliers and distributors do not share market information in a meaningful way. If only suppliers would direct their sales staff to spend a little more time working with their distribution network and a little less time on end user calls, maybe things would be different.

Q. When interviewing potential employees, what is the best question to ask them?

A. "What is the latest good book that they have read?" Their answer tells me what their interests are which usually leads to other questions about their priorities and interests. Then again you get people who don't read books (not a good sign) or can't remember (even worse)!!!

...to be concluded in our November 2007 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.

MEL ETTENSON'S GLOBAL PLASTICS LETTER™
is published monthly by Lucitron Corporation,
P.O. Box 250235, Franklin, Michigan 48025,
USA. Postage paid at Royal Oak, Michigan. \$175 for 12 issues.

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