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

SEPTEMBER 2008

Dear Colleague:

<u>Reassessing recession rules…business cycle buoyant</u>! As we enter the final month of 3Q 2008, it appears that our industry is mired in a *growth recession* (technically still expanding but losing jobs) and we are weathering the hits from protracted inflation with its concomitant fall off in forward buying due to credit conditions created by a paucity of lenders willing to do so. Seeds of a recovery lie in easing oil prices, a trend expected to continue. There's no magic in the oil price decline…there are no shortages and demand is softening despite China's appetite slowing. *<u>However events seem to have been overtaking economic theory and it is best to heed that call in any business planning in this century</u>*.

In our September 2005 issue we wrote: "*<u>The aftermath of Hurricane Katrina will drastically affect the global economy</u>* generally – and our global plastics shapes industry specifically, especially adding to surging inflation. With the core of the plastic resins industry located along the U.S. Gulf Coast, the deleterious effect of this natural disaster is still not completely understood at the time of this writing."
<u>With Hurricane Gustav not emulating Katrina</u>, this second chance at normalizing energy policy without natural disasters affecting the outcome will help blunt any recession effect and <u>we expect a good recovery</u> to begin in 4Q 2008. Some predictions for the remainder of 2008, and into 2009, garnered from usually reliable sources:

- Wholesale prices will climb at half the rate of this years 8% climb.
- Oil prices will average closer to $100 per barrel, down from this years $115 average, aided in part by the continuing rally of the USDollar - up 9% versus the Euro this year.
- Gasoline prices should average 36 cents per gallon less than this year to date.
- Diesel prices will also decline – about 15 cents per gallon.
- Natural gas will cost 75 cents per MMBtu less than this year.
- Transportation and freight charges will continue to increase, with truck lines expected to increase their rates 8-9%…air freight will go up 6-8% as will shipping and rail.
- Electric rates as well as propane will also go up marginally.
- Wage hikes will go up 3-4%.
- Business travel expenses, including air and hotels are expected to rise 6-8%.
- U.S. growth will be bolstered by exports with the USD strength against the Euro.

TRENDS: Well it's happened…as oil prices surged earlier this year, manufacturers raised the prices of products that use oil or its derivatives as raw material components. Dow Chemical, as an example, instituted 50% increases for most of their products, year to date. Now that oil costs are plunging, closer to $100 per barrel, down from $147 just two months ago, where is the give back?
Most companies are citing higher energy costs, not recovered in the run-up, as a reason to keep those higher prices in place. Even companies that instituted *energy surcharges* are not planning any roll back due to uncertainty in the market place…any untoward event could trigger another round of increases.

What strategy do purchasing professionals recommend to abate inflation in raw material prices? A good tool is: www.propurchaser.com - this service monitors many of the raw materials contained in the products we buy for our plastic shapes industry. Since suppliers never tell customers when their costs go down, the time has never been more appropriate to have the knowledge to negotiate with them when their costs are declining.

OUTLOOK ASIA: **by Mal Binnie, our Pacific Rim correspondent, embedded in Australia**
Attendance at Ausplas 2008 is an essential for Companies wishing to enter or expand their business in Australia. Ausplas 2008 runs from 7th October to 10th in Melbourne. National pavilions have been booked for Austria, China, India and Taiwan.The largest Sign, Graphic and Engraving trade show takes place in Sydney, Australia 30th October to 1st November 2008. It will be held at the Sydney Convention Centre, Darling Harbour.

The expansion of Blackfriars, owned by the Colburn family, continues with the acquisition of Universal Plastics NZ. Murray Watts the original founder and owner is reported to be pleased with the closer affiliation that this will give NZ to Dotmar Australia who were acquired by Blackfriars in December 2007.The Engineering Plastics distribution business in ANZ is going through significant change both with ownership and new entries. Plastral Pty Ltd are reported to be expanding their activities with their Simona GmbH product range and Mulford Plastics are now entering this specialized market.

Arnold Mouw, COO of Mulford Plastics, announced a restructure of the Companies commercial operations to create a stronger focus on new market development activities and engineering products. Lydia Swan Marketing Mgr and David Campbell Engineering Plastics (both ex GEP Australia) are driving these changes. Mulfords have laser cutting facility in Melbourne and have employed staff in Brisbane, Newcastle and Perth to their new Engineering team. Halifax Vogel Group (HVG) announced that Anthony Driene currently Product Manager substrates Graphic Div. will now be relocating to their new premises in Carole Park, Brisbane and will add Queensland State Management to his responsibilities. Price increases continue to be announced by MMA producers in Asia, with an increase of $US150/mt expected this month. The MMA supplies have been turning from tight to short last month and some suppliers have introduced allocations to their customers.

In China the Olympics now give way to the Paralympics but plastics manufacturing activity in Beijing is resuming. Recycling was a significant factor during the Games with more than 80% of all waste recycled. At the USA vs China basketball game it was reported that more than 26,000 plastic bottles were collected. The Union campaign against Fortune 500 companies continues to grow and ACTFU branch officials are reportedly compiling lists of those companies who do not cooperate. Octal Holding & Co SAOC's integrated PET resin and sheet plant will come on stream in Oman this month. This will make the Company a major supplier of amorphous PET sheet to thermoforming customers.

MBA Polymers Inc and EMR are looking at China for their joint venture to site a plant to recover plastic resins from end of life durable goods. Mianyang Longhua Film Co continues to expand its range of PC film products and is growing its export business to USA through Optiglass owned by Richard Filliault. Richard was National

Account manger for GE Lexan before he acquired Optiglass. Japan has a goal that by 2020 up to 20% of its plastics will come from renewable feedstocks rather than traditional petrochemical but progress has been slow just as it has been found in many other nations. Tokyo based PBI Advanced Materials has acquired the parts business of AZ Electronics Japan KK. This business includes the manufacture of stock shapes.

Editors Note: OUTLOOK EUROPE, by Chris Parry, is on vacation this month, returning in Oct.

PRICING: Prices are still rising despite some respite in oil prices. PVC, PC and PS are going up single and double digits in September with ABS, PBT and LCP (triple digits) joining the fray. Prices on most thermoplastics are at historic levels led by PP and PE. Rhodia takes up nylon $80 per tonne based on increasing butadiene levels. What's the outlook? This too shall pass – indications are that with capacity being increased due to record higher demands and of course record high prices…excess capacity will emerge and drive prices downward…eventually. We expect that in 2010 as the second decade of this century begins…after a record setting and historic decade, challenging all.

MANUFACTURER/DISTRIBUTOR BRIEFS: Evonik's special Acrylite® sheet is being marketed as Microsoft Surface™ and is used as an interactive, touch sensitive screen material for most new computer devices. Eliminating a mouse, this new technology offers an innovative application for acrylic sheet, opening up evolutionary markets for a heretofore static industry. Zeus adds advanced bioabsorbable materials to its tubing line. Quadrant EPP's 5% boron HDPE plate, named Borotron® being used in neutron radiation shielding application. Grainger expanding its distribution of MRO products, including plastics, into India via acquisition. Sabic Innovative Plastics (SIP) launches Lexan® SD film for electronic identity cards and high security documents as well as laser-markable grades. Palram supplied much of the PC sheet used in Beijing Olympic venues as roof and skylight material…over 40,000 square meters of white monolithic and clear multi-wall. DuPont's Vespel® SP-21 being used as maintenance-free thrust washers in SUV transfer cases in Europe. RTP's 40 mil PVC liner is FDA compliant and RF sealable so as to be used in potable water tanks.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:
Atlantis Plastics sells its U.S. film division, a $275 million sales operation to AEP Industries. Global Engineering Plastics(Global EPP), UK based shapes manufacturer and distributor, and recently in administration, is sold to Schwartz Technical Plastics Group of Germany…Global had split off from Nylacast in 2007 and had expanded too quickly and subsequently shut down briefly. Optiglass PC teams up with coater Si Kote to provide PC sheet and films. Saint-Gobain Performance Plastics expands U.S. R&D facility, adding 61,000 square feet, spending $15 million. Creative Pultrusions, U.S. manufacturer, sold to U.K. based Hill and Smith Holdings for $21 million cash. Arla Plast starting extruded PC and PETG sheet line in Sweden, joining Czech expansion recently completed, to increase its market share in Europe.

PEOPLE: AIN Plastics appoints Roy Casali, Chicago Branch Manager. Prisma Plastics names Marc De Grave, its VP and General Manager in Canada. Vita Group appoints Joe Menendez, who previously was with Saint Gobain, as CEO replacing John Oliver. CYRO Industries appoints Douglas Weishaar Market Development Manager, Optics segment. Eric Giesen is Territory Sales Manager at ZL Engineering Plastics.

In Memoriam… Edward Westlake, Sr., founder and Chairman, Westlake Plastics, 75, on 7/27/08.

Editors Note: Look for our INDUSTRY INTERVIEW with Ed Westlake, Jr. in the October issue.

INDUSTRY INTERVIEWS: …concluding our interview with **Alistair Kennedy, Managing Director, Cadillac Plastic Ltd, UK.**

Q. Have you found any changes in attitude from customers and suppliers since the MBO? Have they been positive or negative?
A. Yes we have, and almost invariably they are positive; and for the same basic reason. Having been formerly owned for over 4 years by a major materials supplier, (GE Plastics), our independence is now appreciated by both suppliers, (who no longer see us as being part of a competitor), and customers to whom we can now be seen to be totally impartial in our advice and supply strategies.

Q. What would you identify as the main benefits that you, as a distributor, can bring to a manufacturer?
A. Mainly the service that we can give to customers, (along with their products), that as a manufacturer they would be incapable of matching. We can also offer synergistic benefits because we are able to offer customers complementary products from a range of non-competing manufacturers, all of whom benefit. Finally of course, we take the credit risk in dealing with a very broad range of, in many cases, quite small customers.

Q. Are you seeing any general changes in manufacturer's attitudes to, and partnerships with, distribution?
A. Not really. Distribution has always been strong in the UK as we have historically not had as large a manufacturing base in semi-finished materials as some other European countries. The supplier/distributor relationship in the UK remains strong.

Q. What is your approach to doing business on-line?
A. We have a well designed website that both promotes our products gives our customers the product information and technical data that they need. However, we do not currently have any on-line transaction capability. I have an open mind about it for the future, and maybe the next step will be some form of extranet system for key customers that will allow them to place orders directly with us.

Q. If you could project 10 years ahead what are the essential changes that distribution will need to implement to remain as important a part of the semi-finished plastics supply chain as it has been in the past?
A. We will be under more pressure on working capital from both customer and supplier. Both will want us to hold more inventory on their behalf, and also there will be pressure on credit terms from both. Customers will want longer and suppliers less. Also, a move towards more electronic transactions.

Q. If you could come back as someone else, who would it be?
A. Genghis Khan or Albert Schweitzer, (Note from the interviewer: let the psychiatrists make what they will from that combination).

Q. What would you consider your greatest accomplishment?
A. Finding an intelligent and beautiful lady with whom to share my life.

Thank you.

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