



GLOBAL PLASTICS LETTER

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“A World of Plastics Information”

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Dear Colleague:

Roiling reassessment relevant...as the peak sales months for our industry loom. The need to take stock of the past year with its contradictions superimposed on the prospects for a rebound is vital.

Of primary concern for manufacturers now are the inventory levels of distributors, which have been low, what with double digit sales decreases prevalent throughout most of the semi-finished shapes industry. When the inventory stream begins to be replenished, that will be the signal for the rebound and recovery... beginning to happen selectively but no set pattern yet. Perhaps we need a “cash for plunkers” (read plastics inventory) program now, similar to the initiatives seen in Germany, the U.S. and other countries, that has stimulated the global automotive industry. An effective rebate effort could accelerate inventory building, leading to quicker economic recovery.

While the euro zone’s two biggest economies, France and Germany, may no longer officially be in recession, their growth will remain weak into 2010. This does not help the U.S. much in the near term and the U.S. is headed for the sharpest drop in its trade deficit in 18 years.

The U.S. dollar will fluctuate for a while longer, then move up amid expectations for an central bank interest rate hike...while a number of Latin American currencies can be expected to gain.

Despite signs of a recovery...no interest rate hike for a while as long as inflation remains static. Meanwhile crude oil prices are stable despite some upward, short-term trends.

Global climate change legislation, which appears to be a certainty, will affect economies in the next two decades...the cost of fuel and electricity will soar, despite alternative source development. New regulations will add 20% to electricity rates as well as several dollars per gallon of gas. Hardest hit industries, in addition to utilities will be our own plastics industry along with steel, aluminum, chemicals and glass among others.

Use ocean cargo for shipping? Take special care in making arrangements for the next several months as many ocean shipping lines are in dire financial straits...risk of bankruptcies and court ordered seizures is high. The perfect storm of recession-caused weak demand and excess capacity is causing this bleak outlook for a key transportation factor for sheet and resin products.

Forward planning for the upcoming new product season is key to achieving new growth by new applications as well as cannibalizing some metal and rubber existing business. Manufacturer-Distributor alliances need much pump priming for the balance of this year in order to build the recovery into growth in 2010 and beyond.

TRENDS: A new survey of purchasing professionals conducted recently by *Purchasing Magazine* reveals that 94% of buyers say their distributor suppliers do a good or excellent job.

What makes a distributor supplier exceptional or best in class? ...among some obvious traits such as customer service, delivery times and pricing are **flexibility** and **innovation!** Take heed. Purchasing experts (76%) still expect their relationships with distributors with MRO products to grow or remain the same. Meanwhile a survey of distributors by *Industrial Distribution Magazine* indicates a continuing need for improving alliances to cut costs, especially in a difficult economic climate where 87% of distributor respondents have made workforce cuts of 1-20%.

Some other of our industry trends to watch in 4Q 2009 and into 2010:

- India's markets and economy continue to grow at double digit rates as does manufacturing investment, with exports sure to increase. Its domestic market remains strong as half the population is under 30 and 3 million Indians graduate from college each year and buy 6 million mobile phones each month... all the statistics are impressive.
- Merger and acquisition activity, while almost dormant now will accelerate as both smaller manufacturers and distributors re-configure their value in the wake of the 2008-2009 economic slide and distressed sellers intersect with asset-based buyers.
- SPE launches first European Technical Conference – EUROTEC in Spain in 2011
- U.S. industrial output rises 0.5% in July – first increase in 9 months as inventories decline

OUTLOOK ASIA : by Mal Binnie, our special correspondent located in the **Pacific Rim**

What Global Crisis!!! This is now being asked by all the economies in the Pacific as business and inventories start recovering. There is still some slight concern about after effects from the USA and Europe affecting markets such as China. Arnold Mouw COO of Mulford International reports continued slow recovery in prices and sales volumes and Laurie Green owner of Cut to Size Plastics confirms the slow recovery but also reports strong competition. However other international distributors in Australia and New Zealand are showing poor results and not reflecting any return to pre 2008 results. Australian packaging giant Amcor Ltd has purchased various Alcan units which are expected to add \$US4 billion to its sales. The Japanese term for “death from overwork” is Karoshi and now China due to long hours is referring to “pin ming” which means putting your life at stake. Labor scarcity is now being reported from some Chinese provinces. Mitsubishi Rayon Co Ltd advises the signing of an agreement with Sabic to establish a 50/50 joint venture in Saudi Arabia including technology, marketing and feed stocks. Start up is planned for 2013 with MMA 250,000MT/Yr and PMMA 30,000MT/Yr. Rumours circulated in Japan that Mitsubishi Chemical Holdings Corp may be lining up to takeover MRC, MRC shares rose 20% on the rumours, no confirmation from either party. Petro China in Xinjiang has gained a double bonus with the start up of both its Ineos licenced polymer units, the PP and PE plants started up within days of one another. Sinchem Quanzhou Petrochemical has selected Dow Unipol technology for its first PP facility, the 6th PP licenced plant for Dow in China. Chinese manufacturers have applauded the action of General Motors to share more of any cost savings they generate on products. Jon Huntsman Jr a member of the family of Texas based Huntsman Group has arrived in Beijing as the new USA Ambassador, a further bond between the plastics industries in China/USA.

OUTLOOK NORTH AMERICA: by **Bill Shields**, special correspondent located in U.S. Many in our Industry are maintaining lower levels of employment and inventories, as the bottom of the Great Recession appears imminent. A couple of distributors are actually adding salespeople. In the U.S the Commerce Department reported that wholesale inventories declined 1.7% in June continuing a 10 month long trend; they also said that consumers spent 0.4% more in June than May. Additionally the Commerce Department reported that factory orders rose 0.4% in June. Canada's unemployment rate is still 8.6% and their GDP fell

3.2% in the Q2 compared to the same period last year. Overall, however, the Canadian economy appears to be more energized than the past 8 months. Canadian manufacturing sales rose 1.9% to \$39.7 billion in June as opposed to a 4.9% decline in May. Mexico's GDP fell at an annual rate of 10.3% in Q2. Crude oil prices are just under \$70 per barrel. The largest increase in resin prices will be experienced in PP. Semiconductor sales have fallen 18% in July but showing improvement. The Annual IAPD Convention is coming up in October in Las Vegas. Estimated attendance is expected to be below record levels but could exceed last years in Philadelphia. **Curbell Plastics** announced Sam Martin was promoted to President, replacing Derek Garner who left the company to pursue other interests, and Gerry Helbig promoted to Vice President....the world's largest polyolefin resin manufacturer **LyondellBasell** announced that Craig Glidden has been named as Executive Vice President and Chief Legal Officer....**Mitsubishi**, fresh off of their Quadrant deal, signs a \$1 billion 50-50 joint venture with SABIC to produce MMA and PMMA in Saudi Arabia....a joint venture of LyondellBasell and Daelim, **PolyMirae Company** announced a new transparent PP resin named Clyrell® RC5056 offering high heat resistance and aimed at applications in the Food Industry....resin distributor and compounder **PolyOne** announced that it would be the primary distributor for DuPont Engineering Polymers in North America....**Quadrant EPP** announces that it has expanded its PTFE based Fluorosint product line. **Ticona** has announced that they are ending production of PBT at its Shelby, NC plant due to poor market conditions and consolidating with its Florence, KY plant.

OUTLOOK SOUTH AMERICA: Editors Note: obtained from our as yet unnamed special correspondent located in Brazil and reports from Minett Media. Brazil, South America's largest economy, is driven by both automotive and aircraft manufacturing and thus a booming elastomer seal business amid a vigorous MRO market. Over half of all cars are fueled by sugar cane sourced ethanol. A growing plastics business supplied by manufacturers and distributors alike is relevant in most of the semi finished shapes sectors from acrylic to polycarbonate and EPM's in between.

PRICING: Resin prices for PS, PP and ABS are moving upward as benzene feedstock hikes exert pressure on these commodities. PE however remains stable as a recent upward move was sheet producers stalled.

MANUFACTURER/DISTRIBUTOR BRIEFS: Europe's top 20 film and sheet manufacturers includes Klockner Pentaplast (#1); Ineos Films; Vitasheet Group; Altuglas; Simona; Evonik Rohm and Quinn Group (for a complete list, email to: mel@globalplasticsletter.com).

Spartech debuts Zycryl high impact acrylic sheet for the sign industry. Norplex-Micarta opens trading company in China. Lucite Intl announces Lucite L meets aviation standards for non-military use as well as motorcycle windshields...also introduces Link line of special colors and effects. PTFE shapes producer Dalau installs special CNC panel saw to provide cut-to-size capabilities for its PTFE products. Regal Plastics, Kansas City plant survives substantial fire incident – resumed normal operations the next day. Quadrant announces broader range of sizes for Nylatron NSM...takeover by Aquamit BV closes. Plastic Engineering Solutions in Florida emerges from bankruptcy. Evonik's Vestamid PA12 pipe introduced in North America – said to compete with traditional steel pipe with lower installation and maintenance costs.

MERGERS, ACQUISITIONS, ALLIANCES, EXPANSIONS AND DIVESTITURES:

Blackfriars/Laird Plastics announces its buyouts of: Taca Sign Supply, Vancouver, Canada; Plastics Distribution Inc., Houston Texas and Plastic Solutions, Louisville, Kentucky. Will operate under Laird Plastics umbrella. Spartech expands its Warsaw, Indiana plant...new capacity for its Royalite line of ABS and PVC sheet products. Bemis buys Alcan Packaging. Lucite's buyer, and JV resin partner with Sabic, Mitsubishi Rayon is itself a candidate for a take over by Mitsubishi Chemical. Cleveland Plastic Films bought by Clondalkin Group of the Netherlands.

INDUSTRY INTERVIEWS: ...continuing our interview with **Peter Ferraro, Vicwest Plastics**

Q. How does the difference between the size of U.S. and Canadian company's (many more are 100 or less people) affect your ability to build sales although easier to reach decision makers?

A. *On the distribution side of plastics we often deal directly with the owner of a company who always seems to be the prominent decision maker. In some ways that makes it easier to get definitive answer but it can hinder or prolong a decision as well because of their emotional attachment to their business, change is often more difficult for independent owners of any company.*

Q. Do you expect a consolidation in plastics distribution and manufacturing in Canada as in the U.S.? Why and who will be the participants?

A. *Yes, I expect consolidation to take place as we work our way through these troubled economic times. Seeing as many businesses are being affected by the current state of our economy it's a good time for financially stable companies to acquire, and those who show weak financial support to merge. Being that there is not a large manufacturing base of stock shapes in Canada, I would expect consolidation to continue on the distribution side. I can't say who, because that would just be a guess.*

Q. Does Canada follow the U.S. in the economic recession? What are the differences? When will recovery start?

A. *Our economy is extremely dependant on the US economy. Many don't realize it, but Canada is the largest trading partner of the US and has been for decades. Prior to the current economic situation occurring, over \$1 Billion per day went back and forth across the border.*

One of the biggest differences is our banking system. No Canadian banks have failed or required government assistance to remain solvent. We have felt the pain with the auto industry, and are now part owners, just as the US government is.

I think consumer demand has been weak in part due to uncertainty. With the bankruptcies and restructuring of GM and Chrysler completed, there should be less uncertainty.

Q. With 10 locations, how do you go about finding and retaining good people?

A. *This is a challenge for any organization. We recruit at universities, externally though various forms of advertising and agency assistance. And we also seek out areas in which have been impacted severely during this recent economic loom. Vicwest offers relocation assistance programs, personal development training, pension plan, health and dental benefits and most importantly there's always room for success and growth for those who strive for it. Vicwest is a solid Canadian company with a long history and employees who have been with the company for decades; its no wonder our company a preferred employer.*

Q. What are your thoughts on the economy and how to deal with turbulent times?

A. *The economy is obviously weak right now. Looking at ways to save money without sacrificing quality is always important. There is still some level of demand, and sales to be had, re-positioning your products and services effectively to reach potential customers and retain current ones is key.*

Q. What do you consider your greatest accomplishment?

A. *On the business side of life, it would have to be working at Vicwest. It's a great company with great people. The plastics part of Vicwest was very limited when I joined the company. Since then I have been given the latitude to build and create a plastics distribution business almost from scratch.*

On the personal side of life, co-creating and running a boys youth group has been an absolute blast. We are now in our sixth year of camping, canoeing, whitewater rafting, snow boarding, skiing, tubing, car rallies, skating, hockey, volleyball, paintball.....

None of which would be possible without the support of my family.

Thank you.

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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