

Plastic Packaging Industry



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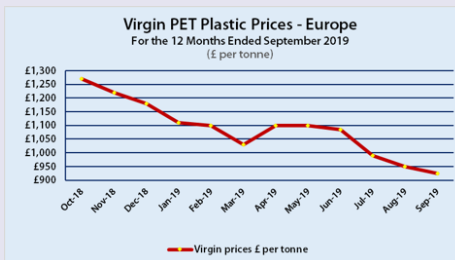


Figure 1: Average price of virgin PET plastic-Europe



Overview

There are numerous benefits to plastics as packaging material. Its lightweight nature minimises transport costs and provides ease of handling by consumers. In addition, plastics are an ideal material to meet consumer demands of ensured freshness, safety and product visibility. Plastic packaging is shatterproof and can be produced with tamper-evident and child resistant closures that increase consumer security. The array of processing technologies employed in the industry afford a limitless variety of packaging shapes and configurations. Additionally, the extensive range of colouring options and the ease of printing provide information for the consumer and facilitate brand identification.

PlasticsEurope reported that in 2018 the total European plastic materials demand was 51.2 metric tonnes. The largest market segment was plastics packaging which comprised 39.9% of the total demand. According to the report, plastics production has been stable and growing in the past years and is expected to continue on a positive trend.



Demand For Increased Recyclability

According to the UK government's Commons Select Committee environmental audit, a deposit return scheme in the UK could significantly increase recycling rates from around 57% to between 80%-90%, as in countries with successful deposit return schemes. In continental Europe, many countries already have successful deposit return schemes and there are plans, particularly in Germany, to increase their scope further by accepting a wider range of plastic packaging.

Christian Crepet, Executive Director of Petcore, an industry body representing the whole PET value chain believes that the future of PET is clear. Coloured packaging, he says, will simply not be accepted in years to come because people are aware now of the difficulties in recycling it.

S&P Global Platts ("S&P") reported, "Brands and consumers are recognising the fact that the industry must return to clear packaging in order to boost recyclability. Coca-Cola, for instance, is switching its Sprite branded bottles from light green to clear in order to boost recyclability and make it easier to incorporate 50% recycled-PET in their manufacture."



Virgin PET Plastic Prices

Figures from S&P show virgin PET prices have steadily declined throughout the latter half of 2018 and most of 2019.

Virgin PET spot prices had not previously fallen as low as spot flake prices since S&P Global Platts first began assessing flake prices in February 2008. In December of that year, virgin spot prices fell to a Eur10/mt premium over flakes, but that is as close as they had come to parity until this year, according to Platts data.

Since February 2008, spot virgin PET has on average been Eur214/mt more expensive than flake and most market participants see a triple-digit discount to the virgin price as necessary to make recycled flake prices competitive,

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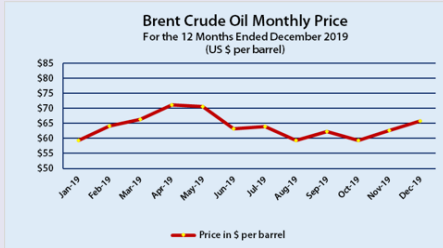


Figure 2. Brent crude oil monthly price

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In 2019 Brent crude oil prices remained relatively stable, ranging from a low of \$59 per barrel in January 2019 to a high of \$71 per barrel in April.
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given the additional costs required in processing recycled flakes.

S&P explained, “There has been much talk about a growing disconnect between pricing in the recycled PET flake market and the virgin PET market. Flake prices have traditionally held a wide and fairly steady discount to the virgin market, making the product economically viable and a boon for marketing. However, 2019 saw virgin resin prices sink, at first to parity with flake prices, and then below.”

In 2019, a combination of high virgin stocks, bearish feedstock prices and relatively weak demand over the summer saw virgin resin prices fall, said S&P. “Recycled flakes, on the other hand, have proved more resilient in 2019. A tighter supply of good quality recycled material and the need for buyers to secure recycled supply chains has kept recycled PET prices more stable,” concluded the report



Crude Oil Prices

Virgin plastics are globally traded commodities. Hence the market price for virgin plastics is ultimately determined by production costs. The main influence on production costs for virgin plastics is the price of feedstock raw materials which, in turn, are derivatives of crude oil. Therefore, if the price of crude oil increases, in the end the price of virgin plastics will follow because crude oil is a key component of the cost of producing virgin plastics. There is a time lag and the increase in cost of virgin plastics does not follow immediately, which has resulted in the price being, historically, volatile.

In 2019 Brent crude oil prices remained relatively stable, ranging from a low of \$59 per barrel in January 2019 to a high of \$71 per barrel in April. The US Energy Information Administration forecasts that the Brent crude oil spot price will average \$65 per barrel in 2020 and \$68 per barrel in 2021.

Recent Trends



Mandatory Usage of Recycled Plastic Passed

In May 2019, the Council of the European Union approved the single-use plastic product directive which had already been passed by the European Commission and the European Parliament. The directive bans single-use plastic plates, cutlery, straws, balloon sticks and cotton swabs by 2021. It sets a 90% collection target for plastic bottles by 2029, and it mandates that plastic bottles be made of at least 25% recycled plastic by 2025 and 30% by 2030. All EU member countries will be required to amend their national laws within the next two years to reflect the requirements of the single-use plastics directive. Demand for recycled plastics over the longer term is expected to grow in part due to these policy initiatives to increase the recyclability and recycled content of packaging.



Brexit

Plastics are one of Britain’s top import and export industries with 69% of British plastics trade being conducted within the EU. As such, Waste Management World (“WMW”) reported that industry players are concerned that a no-deal Brexit could see the cost of these imports and exports

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increasing dramatically due to implementation of World Trade Organisation ("WTO") fees and tariffs that are projected to increase the cost of the UK's imports and exports by £880 million.

WMW stated, "Of all the fields where EU directives have a large impact on UK policy, environment is one of the most influential. Freed from the obligations of the EU Renewable Energy Directive, the government would be free to lower targets and soften rules, reducing the pressure on businesses to achieve green objectives. These targets cover areas as broad as clean air and household recycling. While they are challenging and expensive to implement, they are an important part of reducing negative environmental impact. The plastics industry has long been working towards improving every aspect of its processes in order to make sure the industry's environmental footprint is smaller. But creating new, more energy-efficient plastic grades is an expensive and time-consuming process."

Customer expectations are increasing considerably, with both individual customers and businesses expecting to get goods faster. This has led to growing pressure on companies to deliver goods more efficiently, sometimes at an even lower cost than previously.

"Tariff increases will significantly affect our ability to compete internationally as a business. The focus that is currently turned towards sustainability and improvements in materials will be replaced by adapting to the challenges created by rising tariffs. The consequences of dramatic changes involving international trade and managing the possible loss of skilled employees may see the plastic industry's positive momentum towards environmental issues stall. If the final Brexit deal results in increased operating costs, it is logical to assume that fields such as research and development would be the first to be scaled back and the environmental progress that had been made could be lost," the article continued.

"The UK plastics industry relies on importing materials and machinery from the EU, and so it is vital that access to the single market remains after Brexit to enable it to retain the same £2 billion surplus it currently enjoys worldwide. But this is not in the hands of the industry, especially small businesses. Having a strategy and planning ahead are key to navigating such a potentially damaging situation... Going forward, it will be vital for other businesses in the British plastics industry to maintain their own dedication to sustainability, as well as working to mitigate the negative impacts on business that will come with our exit from the EU," WMW advised.

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