

HOW WILL THE UKRAINE INVASION IMPACT THE FLEXIBLE PACKAGING INDUSTRY?

The Nu Agencies teams assessment of the impact of the Ukraine invasion on materials supplies to Flexible Packaging converters and other packaging manufacturers



INTRODUCTION

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The Russian invasion of Ukraine, Oil and Gas Prices and how they might affect the Flexible Packaging Industry

Firstly before we try and explain the impact on the packaging market of the Russian invasion of Ukraine, let's start by offering our thoughts and support to the people of Ukraine, let's all hope that this terrible and tragic situation is resolved as quickly as possible.

Inevitably life for the rest of us goes on and in this article we try to make some sense of how the invasion is impacting the packaging sector which Nu Agencies as a materials supplier are heavily involved in.

Obviously the first thing to say is that the situation is very difficult to predict but as usual we shall try and highlight the factors to be considered and give some idea of the short - long terms scenarios. For some context we trade everyday with materials manufacturers all over the world; EU, Middle East, India, Thailand, China and Taiwan and we speak to all of them almost on a daily basis.

We are also involved in the supply of a broad range of materials from paper to plastic film to paperboard, so we have oversight on a wide range of product categories. And finally we move close to a 1000 containers of material around the world each year so we have a window on what's happening in the freight market.





POLYMERS

It feels like we haven't yet recovered from the Texan Freeze price increases from last year, the hope was that some stability would return in the first half of 2022 but that now seems unlikely as the Oil and Gas price inevitably tracks the daily geopolitical situation.

At the time of writing the oil price hovers around \$120/30 per barrel but as we all know events in Ukraine can have a damaging and instant impact on the price of crude and gas. Should the situation escalate dramatically then some analysts are forecasting prices of \$200 per barrel. What's clear is that prices for virtually every polymer type will increase for April deliveries and for an indeterminate time thereafter.

Whilst currently there appears to be a lull in purchasing, we think that converters are just watching events closely. We think there has been an element of over-purchasing for the last few months in anticipation of supply difficulties and price rises. Capacity at film manufacturers in the EU, Middle East and Asia doesn't appear to be an issues right now but it would be highly beneficial to ask your suppliers where they are sourcing their raw resin from.

Russia was a major supplier of PE and other resins and as importantly accounts for nearly 50% of the supply of Naphtha (of which reserves are also at their lowest since 2016) which is a vital component in the supply of Ethylene globally. Some manufacturers if they are dependent on Russian raw materials are undoubtedly going to feel the impact of these shortages.

It should also be noted that aside from Naphtha production the Russian Federation also has an annual excess of 500'000 tonnes of (extruded) plastic production (Total Production V Domestic Consumption) and it is likely that a significant amount of that volume appeared on the EU / Global markets, obviously we won't be seeing any of that volume for a while.

In the medium to long term it's clear that even if the Ukraine conflict ends quickly the sanctions on Russia and or anti-Russian sentiment will remain for many years, converters, distributors and end-users need to expand their supply bases beyond just the EU (in the short-medium term) and look to onboard alternative suppliers. It also feels like there needs to be a review of Polymer choices, for example the Plastic Tax in the UK has prompted discussion about PCR resins, it could be that the shortage of supply will drive this conversation harder and quicker.

Certainly when the supply situation is clearer it feels like there may well be shortages of certain polymer types and that a switch to alternative polymers may be necessary. Alufoil is another case in point, supply from China was already difficult but with Russian volumes disappearing from the market it may be the time to look for alternative high barrier solutions.

To counterbalance these somewhat depressing statements is also important to highlight that we (the world) is full of incredible resourceful people and businesses and as the pandemic showed us all, we are resilient and able to change direction quickly. Already moves are being made to source additional oil from other producers and often the worst case predictions end up being unfounded. But we would suggest that some thought needs to be given to alternative application solutions and now.



FREIGHT

There was always going to be an imbalance in supply and demand until 2023 when new container ships are commissioned, and we have seen steadily increasing prices since the middle of last year. Fuelled initially by the post pandemic boom it looks set to continue until new capacity enters the freight market.

The sanctions against Russia and the difficulty in supplying the Ukrainian market, means that there are a number of ships currently caught in limbo around the EU. Until these ships can find a home or be offloaded into a storage facility there will be further congestion at several major EU ports potentially.

There are also similar potentially short term issues in Asia as exports destined for Russia need to be diverted or are waiting outside ports. Ultimately this back-up of ships and stock will clear but vigilance is needed for the next couple of weeks when tracking deliveries or placing new orders.

In terms of land-freight around the EU there are expected to be delays at borders close to the fighting and again inevitably there will be stranded and misplaced vehicles, reducing the overall capacity and forcing prices even higher.

In conclusion the difficulties with sea and land freight look set to remain for quite a while longer. Prices will certainly remain high and availability will be patchy on certain routes and in certain regions of the world. Logistics need to be carefully planned and costed.

ENERGY



Phew this is a big one! Even if we put the supply v demand issues to one side, it's clear that fuel and energy prices will continue to rise until a robust alternative supply of oil and gas is found. Whilst the UAE and Iran might increase supply, that is likely to take months to pull together, and as we know the EU has allowed itself to become too reliant on Russian supply. Of course there are energy alternatives but, again, these will take years to bring to the market. Of all the alternatives some of the green energy solutions such as wind could be the quickest to implement! (cont next page)

If the pipelines between Russia and the EU are shut in the next few weeks or days, then we will see a sudden upturn in prices that will linger for several months whilst the market tries to correct itself. If they remain open then prices will continue to react to the geopolitical situation but we might avoid a massive and instant hike. Frankly who knows how this will play out. Like the Paper Industry has done, maybe it's time for converters to consider energy levies too!

CONCLUSION

Clearly we are all in an incredibly inflationary and geopolitically fragile period, the demand v supply imbalances in so many sectors were already causing huge difficulties but this situation has now been exacerbated by the war in Ukraine.

If we were to give any advice it would be:

- Prepare for worst case scenarios and hope they never happen.
- Look at alternative sources of supply
- Look outside the EU where you can
- Expect delays in transport and build stocks where you can
- Logistics need to be carefully planned, meticulously costed and checked daily
- Talk to your suppliers everyday and get regular updates
- Look at alternative materials now, test and approve them, be ready to switch
- Consider PCR grades, there is a good supply of PET particularly
- Talk to those customers that were looking to switch from polymer to paper, if it's a commodity paper product, there won't be availability.
- Maybe take a look at production based energy levies

And finally just to reiterate that we, like all of us reading this, will continue to standby Ukraine and and hope and pray for a swift cessation of the war.

