

A RALLY ON THE POLYMER MARKET

Prices of plastics have risen following a recovery in the market and growth in global prices.

How the prices rose

Since the beginning of the year, the Ministry of Industry and Trade of the Russian Federation has been receiving reports from manufacturers of plastic packaging about the increase in prices of raw materials for their products. Representatives from the food industry raised the alarm. In February, Rusprodsyuz, a union representing more than 400 businesses, asked the Federal Antimonopoly Service of Russia to verify the reasons behind the price increase for packaging materials. The union made clear to the antimonopoly service that since late 2020, union members have been receiving warnings about the price increase of widely used polymers such as polyethylene, propylene and polyethylene terephthalate. Rusprodsyuz emphasises the fact that the price increase of packaging automatically means the production cost of the final product also increases.

THE PRICE GROWTH FOR HIGH-TONNAGE POLYMERS CAN BE EXPLAINED BY THE RECOVERY IN DEMAND FOLLOWING A NOSEDIVE CAUSED BY THE PANDEMIC

The Association of Plastic Processors (APP) presented its perspective on the problem. In March, the organisation sent an appeal to the head of the Russian Government to restrain prices for basic materials. The appeal cites data from the industry agency Plastinfo.ru, according to which the price index for low-density polyethylene increased by 76% year-on-year in February 2021 and is continuing to grow. A similar trend is observed for polypropylene, polystyrene, polyvinyl chloride, and others.

The union stressed that processors today are forced to increase the price of their products, otherwise they will have to curtail production, which will result in negative social consequences, among other things. "Plastic products are widely used in all sectors of the national economy, and an increase in their price will lead to a price increase for food packaging, a number of medical and construction products, and machinery and equipment where plastic parts make up a significant portion of the product," the appeal says.

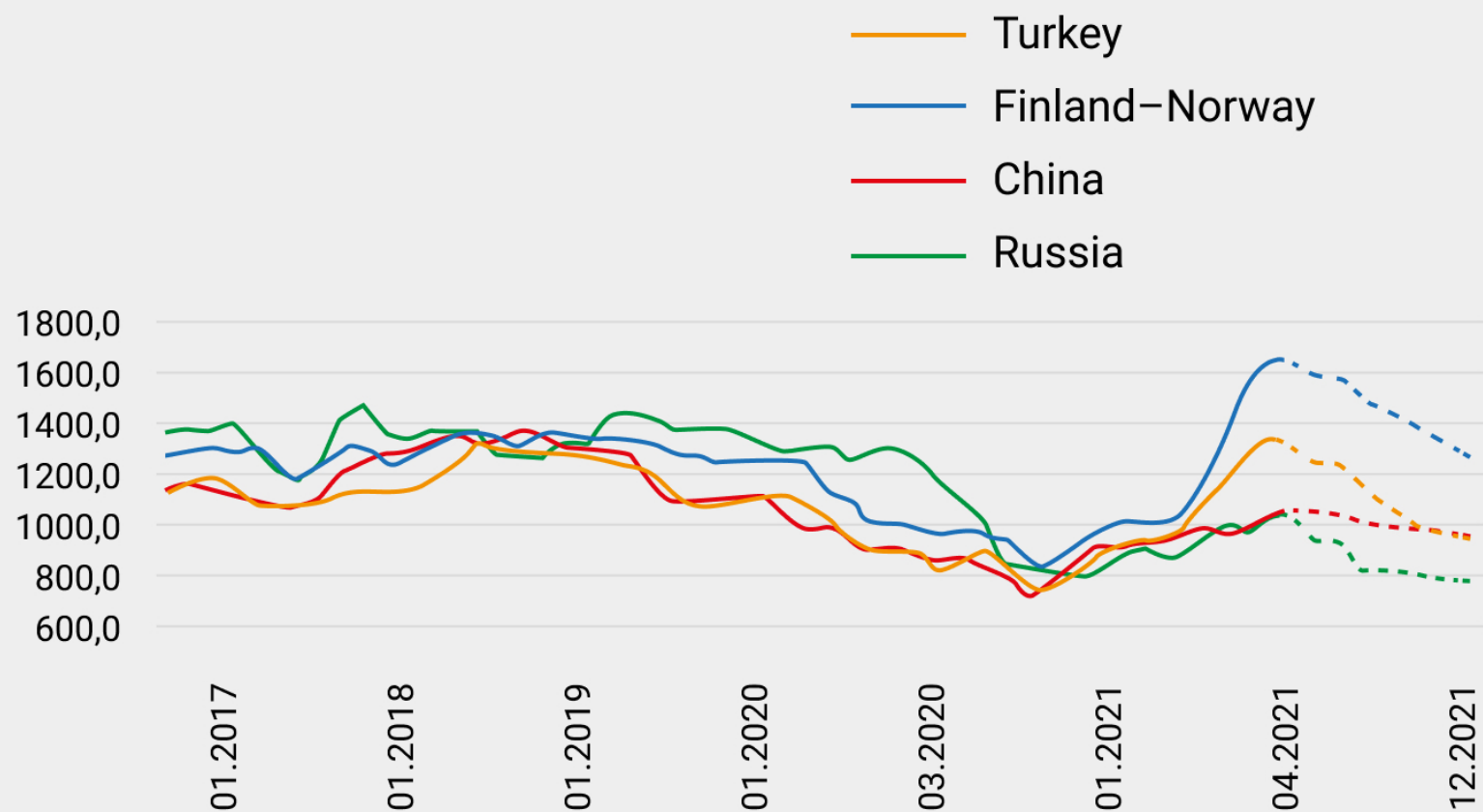
Members of the APP believe that Russian raw materials should be sold in Russia at preferential prices. "Failing this, prices for consumer goods and food products will rise along with the prices of the polymer materials used in their production," the Association of Plastic Processors warns.

“It seems to me that producers of virgin polymers and processors are maintaining the margins of their business. In any case, if we look at the Plastinfo Polymer Index – Basic Thermoplastics, which shows the overall price movements of nine high-tonnage polymers (LDPE, HDPE, LLDPE, PP, PS, HIPS, PVC-S, PET and EPS) in Russia, we can see that prices for standard thermoplastics are at their highest levels in history,” says Alexey Kalachev, an analyst with Finam.

Reasons for the price increase

The price growth for high-tonnage polymers can be explained by the recovery in demand following a nosedive caused by the pandemic. The spread of COVID-19 in the world led to a decrease in demand for primary polymers from processors – a deep decline was observed from January to April 2020, when countries introduced lockdowns and prices for hydrocarbons hit the floor (additional pressure on the industry came from the fall in oil prices on the back of the collapsed OPEC+ deal in March). However by the third and fourth quarters of 2020, the demand for polymer products had started to pick up, including for engineering plastics, and processors' operating rates began to grow. At the same time, prices for LPG and naphtha, essential materials used in the production of polymers, increased. In particular, in the European Union, the cost of liquefied petroleum gas (C3, C4) increased by an average of 92% from the second quarter of 2019, and the price of naphtha tripled.

COMPARISON OF THE CHANGES IN GLOBAL AND RUSSIAN PRICES FOR HIGH-DENSITY POLYETHYLENE (HDPE), USD/T



CHANGE IN DELIVERY PRICES

	Turkey, USD/t	Finland-Norway, USD/t	China, USD/t	Russia, USD/t
Annual increase	44%	67%	19%	-3%
Growth over the next two years	20%	28%	-10%	-30%
Growth from the lowest point	77%	95%	39%	21%

Source: ICIS

Pent-up demand also had an impact on price growth in early 2021. In addition, force majeure events also had their impact, leading to shutdowns of a number of polymer production facilities around the world. For example, severe frosts in the United States lead to restrictions affecting a major petrochemical cluster in Houston. The disruptions also affected European countries. In Europe, about 20% of the regional petrochemical capacity was shut down.

FOR HIGH-DENSITY POLYETHYLENE IN THE RUSSIAN FEDERATION, THE PRICE DECREASED BY 3%. IN COMPARISON: HDPE IN THE EU ROSE BY 67%, IN TURKEY BY 44%, IN CHINA BY 19%

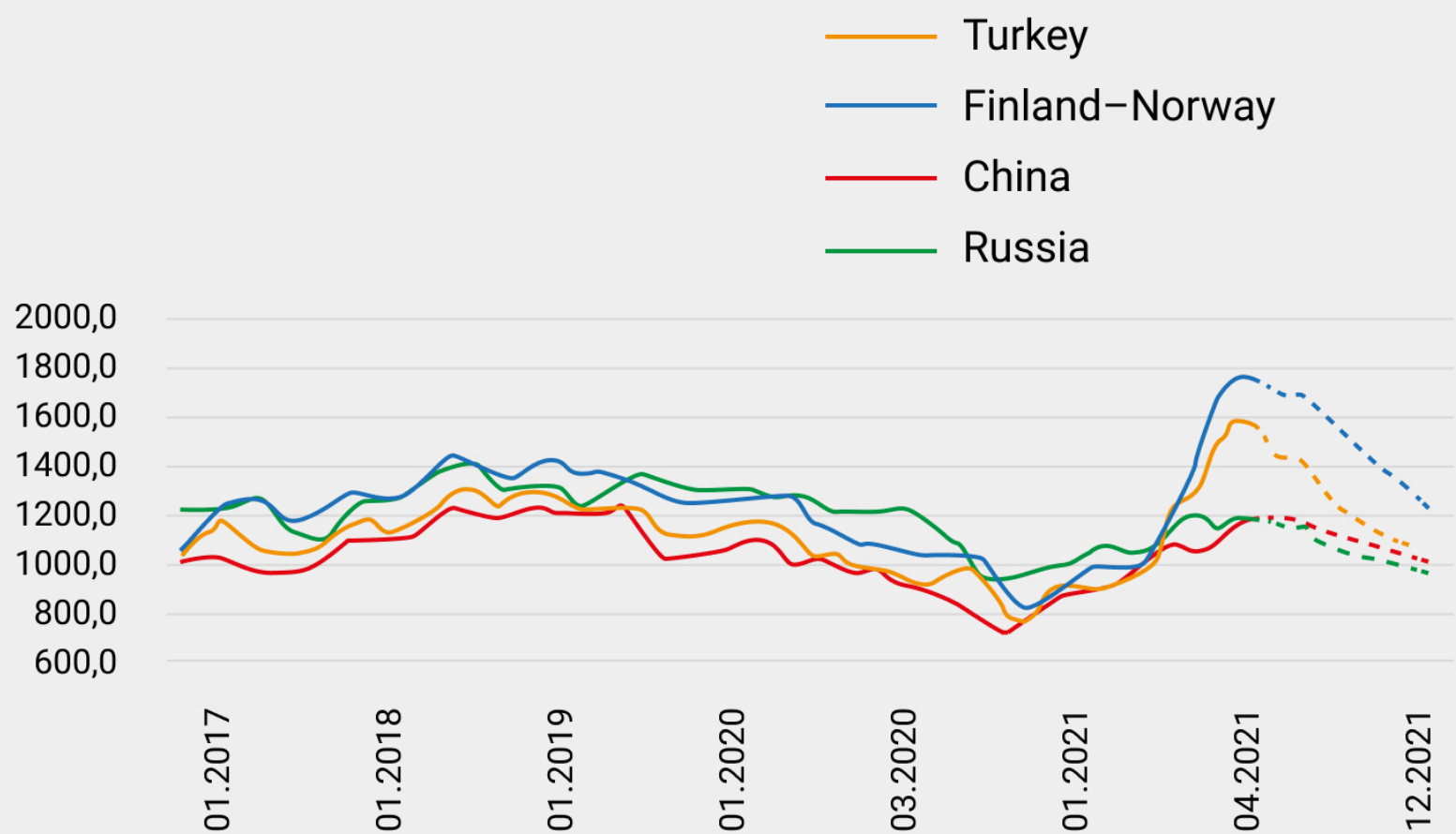
Also, logistics issues with international supply added to the tension (the industry was faced with an unprecedentedly high freight cost,

“The shortage of polymer materials comes with a significant increase in prices,” says Martin Engelmann, Director General, German Plastic Packaging Association, “Short-term shortages and substantial price hikes threaten not only the supply of securely packaged goods to the public, but also multiple value chains wh ere plastic packaging plays an important role.”

Changes in the Russian market

Note that the global prices for basic polymers have outpaced rising prices in the Russian domestic market. For example, the price of polypropylene in Russia increased by 6%, while in the European Union it increased by 60%, in Turkey by 49%, and in China by 30% (data as at mid-March 2021). On the contrary, for high-density polyethylene in the Russian Federation, the price decreased by 3%. In comparison: HDPE in the EU rose by 67%, in Turkey by 44%, in China by 19%. An even higher than 70% price increase for LDPE is characteristic for supplies fr om Europe, wh ere the increase was 79%, as stated in the appeal of the Association of Plastic Processors. The price of Russian low-density polyethylene increased by 34% (for comparison, in China it increased by 54%, and in Turkey by 53%).

COMPARISON OF THE CHANGES IN GLOBAL AND RUSSIAN PRICES FOR POLYPROPYLENE (PP), USD/T



CHANGE IN DELIVERY PRICES

	Turkey, USD/t	Finland-Norway, USD/t	China, USD/t	Russia, USD/t
Annual increase	49%	60%	30%	6%
Growth over the next two years	33%	33%	3%	12%
Growth from the lowest point	91%	101%	48%	21%

Source: ICIS

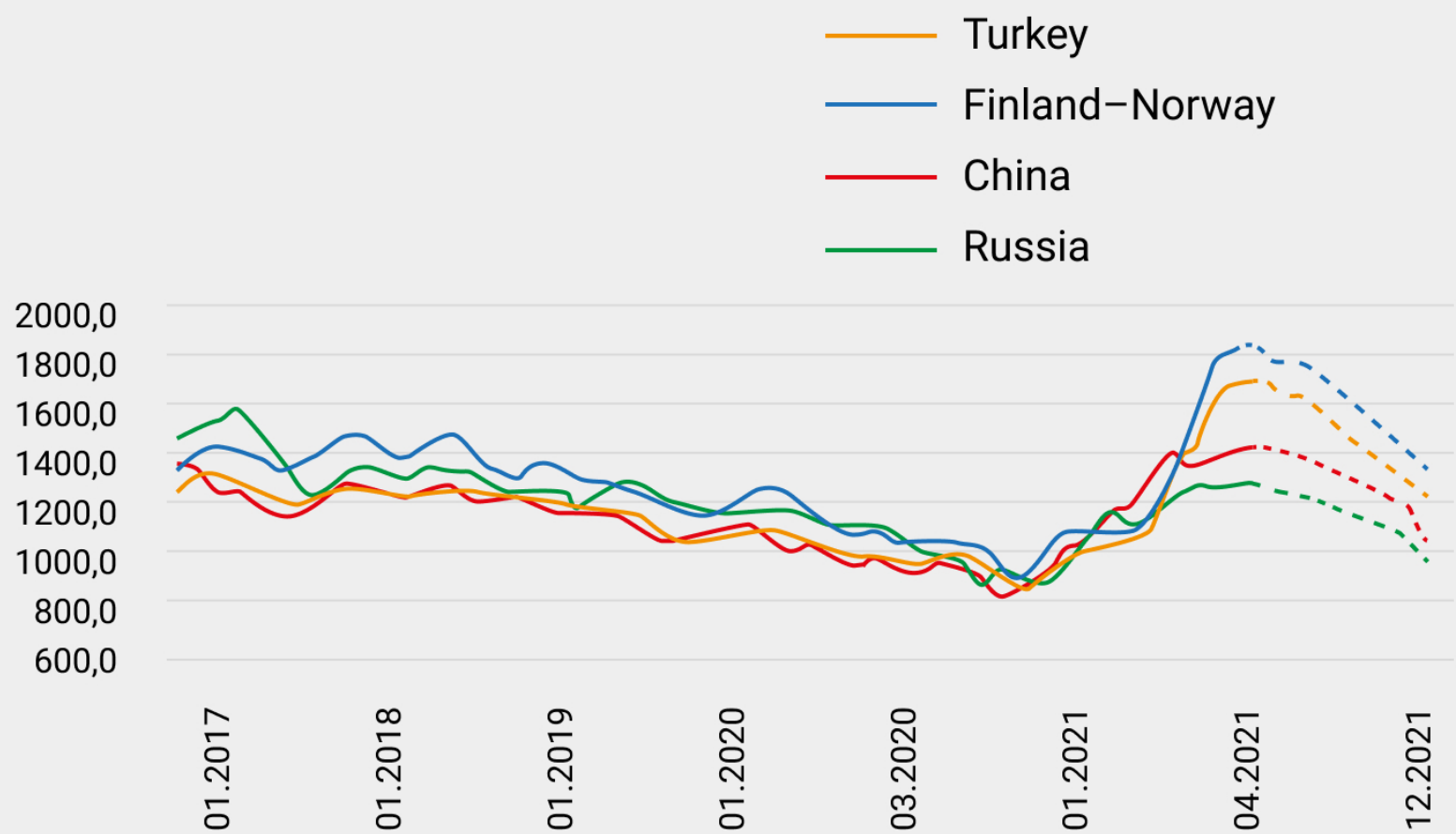
SIBUR IS CONTINUING TO MEET THE NEEDS OF THE DOMESTIC MARKET AND FULFILLS ALL CONTRACTUAL OBLIGATIONS, FIRST AND FOREMOST SUPPORTING LOCAL PROCESSORS. THE SHARE OF DOMESTIC SALES IS ABOUT 60%

According to Alexey Kalachev, Russia is integrated into the global production chains and therefore cannot be excluded from global

In sales of polymer products, SIBUR employs a market-based approach, i.e. uses transparent price indicators (price quotations for polymers), which reflect the balance of supply and demand not only in Russia, but globally too. At the same time, the company is continuing to meet the needs of the domestic market and fulfils all contractual obligations, first and foremost supporting local processors. The share of domestic sales is about 60%.

Other domestic manufacturers of basic polymers follow a similar policy. “Today, having a substantial shortage of raw materials, we purposefully minimised export shipments in attempts to re-saturate the domestic market with polymers. These were sold through an electronic trading platform, where prices are formed based on the supply and demand in the polymer market,” Kazanorgsintez reported (cited by Interfax). The company clarified that they maintain an open line of communication with their customers and discuss different options that take into account the interests of both parties.

COMPARISON OF THE CHANGES IN GLOBAL AND RUSSIAN PRICES FOR LOW-DENSITY POLYETHYLENE (LDPE), USD/T



CHANGE IN DELIVERY PRICES

	Turkey, USD/t	Finland–Norway, USD/t	China, USD/t	Russia, USD/t
Annual increase	53%	79%	54%	34%
Growth over the next two years	46%	61%	30%	7%
Growth from the lowest point	84%	112%	76%	49%

Source: ICIS

Regulatory proposals

The Association of Plastic Processors is proposing the creation of a group of representatives from the Russian Government, the Ministry of Industry and Trade, the Ministry of Energy, and from petrochemical companies to develop a regulatory framework that would reduce price volatility and dependence on foreign market conditions, similar to the laws that govern the selling prices for fuel and socially important products.

SIBUR CARES ABOUT CUSTOMER SUPPORT AND OFFERS A FACTORING OPTION AND PAYMENT DEFERRALS. THE COMPANY ALSO HELPS ITS TRADING PARTNERS TO WORK WITH FINANCIAL INSTITUTIONS AND GOVERNMENT AUTHORITIES THAT ARE ABLE TO OFFER STATE ASSISTANCE TO MANUFACTURES AND PRODUCERS

The proposed measures require a detailed study. "It is possible, of course, to compensate producers for the price difference, by using the same buffer principle used in the motor fuel market, but I think the Ministry of Finance will object to the extra burden on the budget during the current deficit conditions. And where Russia relies on imports for certain products, even these measures are impossible until domestic manufacturers replace those imports with their own products," says Alexey Kalachev.

As for SIBUR, the company cares about customer support and offers a factoring option and payment deferrals. The company also helps its trading partners to work with financial institutions and government authorities that are able to offer state assistance to manufactures and producers.

It is worth saying that domestic market price growth might have been higher if it were not for the fact that ZapSibNeftekhim reached full design capacity last year. SIBUR's new production facility has brought 1.5 million tonnes of product to the market, 60% of which goes to local processors. In total, in 2020 the company delivered 390 thousand tonnes more of polyethylene and polypropylene than it did in 2019 (PE growth was 165%, and PP 27.6%).

As for the idea of state intervention to prevent price volatility, petrochemical industry participants have a lot of concerns. "The first and most important thing is that the lack of interest in investing in the basic polymer industry has been discussed many times at all levels of the country's leadership. To attract investment to the industry, the Government made correct decisions by introducing a reverse excise tax on the processing of oil and gas feedstocks into petrochemical products. At the same time, the introduction of manual regulation of polymer prices again raises questions about investment security. It is important to understand that over the past decades, there have only been a few appeals from plastic processors, this would be rather an exception to the rule. The situation at present will return to normal even without intervention in the near future, because both the global polymer market and the Russian market are in a significant surplus," Kazanorgsintez representatives are convinced.