

## **BOPP FILMS – FLEXIBLE STRATEGY**

The BOPP film market in Russia had already been deep into import substitution by the time the country officially adopted the strategy in 2014 in response to Western sanctions. Domestic players are committed to ensuring full imports substitution.

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THE QUALIFICATION OF BOPP FILMS TAKES 2.5 YEARS – AN INTERNATIONALLY ACCEPTED PERIOD DURING WHICH THE PRODUCER MUST DELIVER CONSISTENTLY HIGH QUALITY.

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Until the end of 2004, high-quality Russian BOPP films were simply non-existent. Most of the products were imported from neighbouring Belarus or other countries, ranging as far as Latin America. It was not until 2005 that the market saw the first Russian producers using state-of-the-art BOPP film equipment. Those were BIAXPEN, GRINN Plastic and NOVATEK-Polymer, with others following suit shortly after. The domestic capacities totalled 105 ktpa.

While import substitution was slowly gaining traction, it was hard to imagine the government would soon adopt it as a strategy in response to sanctions. By the end of 2005, Russian companies gained a market share of about 40%, and pushed it up to 64% by 2006. Their products were competitive both in terms of pricing (20–30% cheaper than imports) and quality ensured by the best-in-class modern equipment.

The company's R&D strategy helped it take the leading role in import substitution. In 2008, BIAXPEN grew even stronger after making SIBUR its key polypropylene supplier. In 2009, SIBUR became BIAXPEN's shareholder, acquiring it completely in 2011 to bolster deep conversion capacities. After BIAXPEN's integration with SIBUR, its core business started to develop rapidly.



*BIAXPLEN was one of the first companies to start manufacturing high-quality BOPP films.*

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CONFECTIONERY AND SNACK MANUFACTURERS IN RUSSIA WOULD SWITCH TO DOMESTICALLY MADE PACKAGING ONLY IF THERE IS A FULL PRODUCT RANGE AND CONSISTENT QUALITY.

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In 2014, the company launched a range of new films, including those unique in Russia, and put into operation new production lines in Novokuybyshevsk and Tomsk as part of the import substitution programme. This allowed BIAXPEN to boost domestic supplies and expand its exports geography. The company targeted primarily Italy, Poland and Germany as the largest consumers of its products, while also making first shipments to Israel, Spain and Serbia.

“2015 saw the Russian BOPP film market reach the first milestone in import substitution, which was marked by Russian producers taking over some 80% of the market,” comments Georgy Martirosyan, Chief Marketing Expert at BIAXPEN. “They managed to oust foreign peers from such mass segments as transparent and metallised commodity films, where technological requirements were not that high. Imports survived only in complex technology-intensive and quality-demanding segments like tobacco and confectionery packaging, or label films for plastic containers.”





*BOPP film facilities under construction in Novokuybyshevsk.*

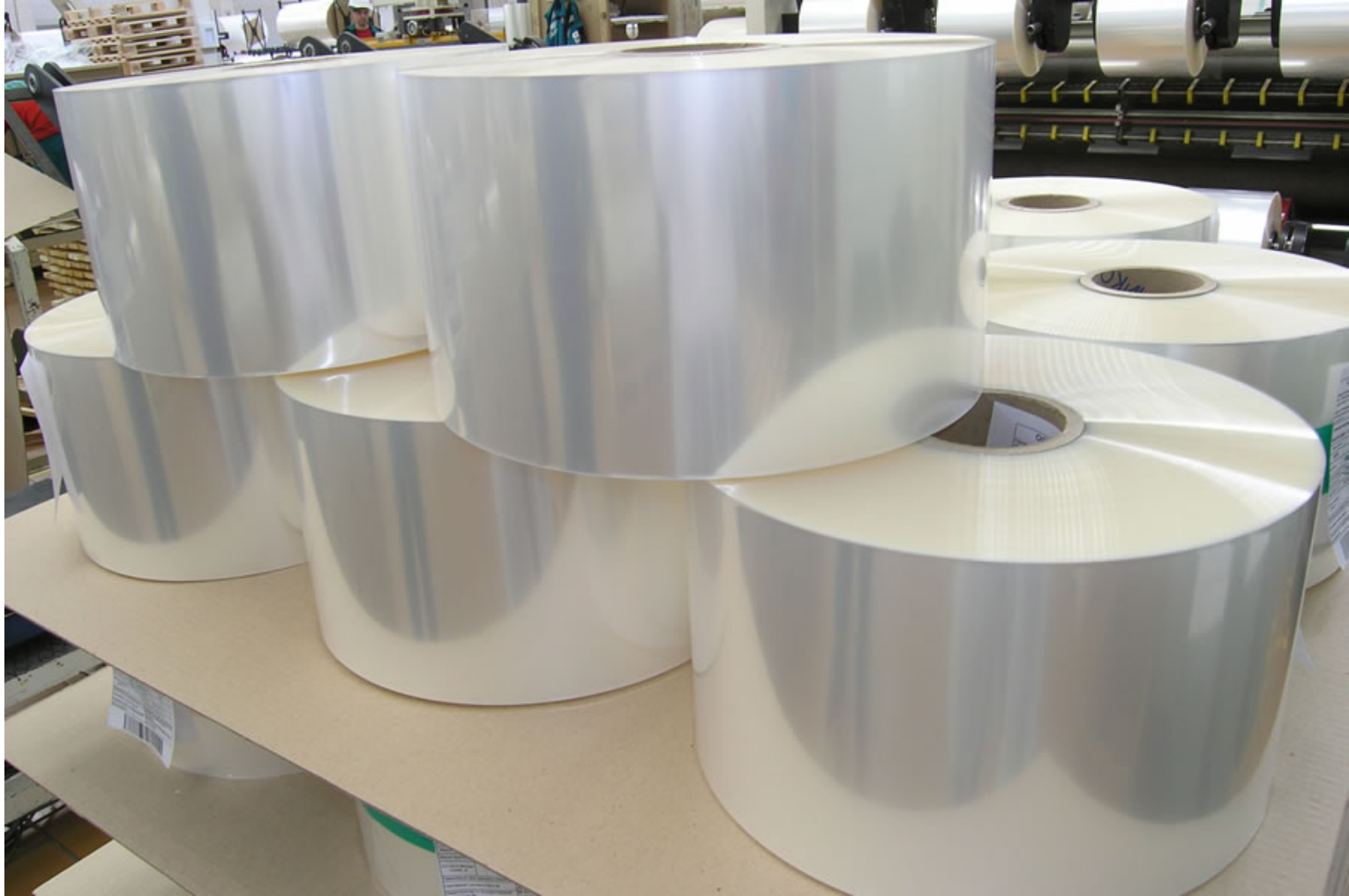
At this second stage of import substitution, BIAXPLEN was competing with some other domestic players that decided to invest in new technologies.

## **Hot technologies**

In April 2015, BIAXPLEN marketed a new type of heat shrink BOPP films for tobacco products.

Previously, tobacco companies had to source those films from abroad. Supplying domestic companies with local BOPP films is a strategic priority for BIAXPLEN. By launching TSHT, the company covered one more segment and got one step closer to comprehensive import substitution in the packaging industry.

However, this journey was not easy for BIAXPLEN, as the tobacco film market took the longest to enter. According to international standards, a BOPP film product would become qualified only after 2.5 years of delivering consistently high quality. Until that, it is impossible to sign a contract with a tobacco multinational. That is why, in an effort to prove the product quality, BIAXPLEN spent 2.5 years making films for testing rather than for sale.



*By launching TSHT, BIAXPEN covered one more segment and got one step closer to comprehensive import substitution in the packaging industry.*

“Tobacco films are the most complex products in our portfolio,” says Natalya Malkova, Chief of Multinational Sales at BIAXPEN. “Our customers choose us because we are a vertically integrated company that has its own polypropylene capacities to ensure continuous supply.”

According to Natalya Malkova, BIAXPEN introduced all processes required to work with customers in the tobacco film segment, making them compliant with international standards. Today, the company can exchange information via customer portals and ship products in rolls rather than in standard kilograms.

As a result, BIAXPEN gained a significant market share – even though its tobacco film capacities were built from scratch as recently as in 2014.

## **Sweet packaging**

Another example of successful import substitution is confectionery films. Unlike the more complex tobacco film segment, this one is quite competitive.

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BETWEEN 2015 AND 2017, BIAXPEN SQUEEZED SOME 10% MORE OF IMPORTS OUT OF THE DOMESTIC BOPP FILM MARKET, OVERCOMING COMPETITORS IN SUCH SOPHISTICATED NICHES AS TOBACCO AND CONFECTIONERY PACKAGING.

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“We have equipment to manufacture a wide range of films, including those with optical effects,” comments Natalya Malkova. “Apart from biscuits and chocolate, the confectionery segment comprises chewing gum and various snacks. Requests from these customers are challenging and exciting. For instance, Mars, a multinational that works with us, purchases ready-to-use flexible packaging rather than films. That means BIAXPEN needs to engage with a converter that makes packaging from our films and provides it to our partners.”



In June 2018, the Ministry of Industry and Trade held a meeting with Russian BOPP manufacturers, converters, FMCG companies and industry associations to try and solve the dilemma of how to reduce the share of packaging imports or even eliminate them altogether.

As it turned out, confectionery and snack manufacturers in Russia would switch to domestically made packaging only if there was a full product range and consistent quality. As discussed by the participants, this was possible, although it would take a while. According to Natalya Malkova, confectionery packaging must undergo lengthy testing – up to eight months – to prove its consistently high quality.



*Confectionery packaging must undergo lengthy testing – up to eight months.*

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IN FEBRUARY 2018, BIAXPEN'S TOMSK SITE (BIAXPEN T) PUT INTO OPERATION A 5 KTPA UNIT FOR BOPP FILMS. THE ONLY MACHINE OF ITS KIND BEHIND THE URALS, IT COATS THE FILMS WITH AN ALUMINIUM NANOLAYER USING A SOPHISTICATED PROCESS OF VACUUM DEPOSITION.

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What does that mean for BIAXPEN? A converter obtains films from the company to package a product (say, a chocolate bar) that will be stored in packaging under conditions similar to those in actual stores. After eight months, experts will check if the packaging is safe and the quality of the product is satisfactory.

This will be followed by the six month-long testing of the industrial packaging process at the manufacturer's premises. In other words, it takes at least a year and a half to enter the flexible film market, or even longer if you encounter problems at any stage of testing. But it is worth one's while. According to international standards, customers cannot purchase packaging from a company without such a qualification.

At present, BIAXPEN is testing some types of packaging, which brings it closer to its main goal of offering a full range of Russian-made flexible films. Between 2015 and 2017, the company squeezed some 10% more of imports out of the domestic BOPP film market, overcoming competitors in such sophisticated niches as tobacco and confectionery packaging and nearly taking over the market for non-printable films.



The remaining 10% of imports are largely attributable to exclusive ready packaging for snack manufacturers. Impermeable to moisture and oxygen, this high-barrier packaging extends the product's shelf life. Only a handful of companies in Europe make films that can be used in such packaging.

The requirements are extremely stringent – from the use of special-purpose equipment and complex fine-tuning of the printing technology, to prolonged qualification process.

Nevertheless, BIAXPLEN plans to enter this highly sophisticated segment as well. “Despite a relatively small market, these films have the greatest added value among film products. This is where the third stage of BOPP film import substitution will take place,” says Georgy Martirosyan.

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## New import substitutes

In April 2017, BIAXPLEN launched modified antifog BOPP films (HASL series). Tests carried out by the key customers have revealed that these films can extend the packaged product's shelf life, prevent its early spoilage and improve its visual appearance. It means that another import substitute has emerged in the Russian market.

Antifog films are used in packaging foods, in particular perishable goods. An improved offer added to the standard range will give BIAXPLEN's customers an opportunity not only to buy from the domestic market as opposed to importing things, but also to come up with the best price for products.



*BOPP films included in the HASL series can extend the shelf lives of perishable goods.*

Metallised films are another innovation. In February 2018, BIAXPLEN's Tomsk site (BIAXPLEN T) put into operation a 5 ktpa unit for BOPP films. The only machine of its kind behind the Urals, it coats the films with an aluminium nanolayer using a sophisticated process of vacuum deposition. The metallised films have enhanced barrier properties and are used in food packaging, namely for products that require sealed storage and light protection. These films preserve their reflective qualities even through printing and heat-sealing, and on top of that, they are recyclable.

As a result of the launch, another import substitute has become available to Russian customers in the BOPP film market, moving the company further up on the import substitution curve.

