

Russian PET market: focus on feedstock affordability and low-margin converting

The 15-20% increase in demand for plastic packaging in March and April has revived the PET market, and in May Russian feedstock producers raised the prices. Since then, many converting companies switched to more affordable supplies from China; the local PET market became loose.

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The bottle-grade PET accounts for about 94% of virgin PET market volume in the consumption structure of the Russian market, and the remaining 6% belong to fiber, sheet and film-grade PET. Currently, the total capacity for PET production in Russia is 635,000 tons. In 2019, 602,000 tons of virgin PET was produced. That was slightly lower than in 2018, and was caused by the unplanned turnaround at Polief plant.

Market participants interviewed by CREON said that due to self-isolation and rainy season, the sales of PET-bottled soft drinks had dropped by more than 25% compared to the same period of previous year.

At the same time, Russian producers of feedstock raised the spot prices in March and April anticipating increased consumption. After that in May, converting companies switched to lower-priced virgin PET from China, where the output grew since the quarantine had been lifted. This situation led to the stocked warehouses and oversupply in the market. "Russian producers of feedstock raised the price too high, and converters started imports from China, so the import share in the PET segment was large in the first five months. By the end of May, Russian producers lowered the prices, and locally produced PET will be back in demand again gradually. The situation was disturbing, as this was the way to lose your clients; suppliers' strategy was wrong as they expected the short-term profit", said the source in the market. Indeed, in the first week of June, the spot prices of Russian producers fell from 80,000 rubles per ton to the level of contract prices at 72-74,000 rubles per ton.

Decline in soft drinks, growth in packaging

Consumption of carbonated soft drinks has suffered most notably, first of all in the premium segment. "Consumers started cutting expenses, and the premium segment was affected the most. Roughly speaking, children would get their soda, but in a cheaper category", said one of the sources in the market.

The PET demand saw changes in the bottling size in favor of larger volume: while 0.33L bottles were more popular earlier, the trend is now shifting towards larger bottles, 1L to 5L. However despite a significant reduction in the demand in May, the PET converters are expecting recovery this summer, assuming hot weather. "We expect to be revived when the heat comes", the expert says. "If we compare month-to-month data, the market is down, but if we compare the period of January-May, we see an increase of about 10%".

Experts interviewed by CREON also noted the increase in demand for PET packaging: "We see that plastic is back, it's everyone's good friend again", says the manufacturer of PET packaging equipment. In March-April, the demand for food-grade plastic packaging grew sharply. However, already in May, this segment lost 75%, since street trade was suspended and restaurants were closed.

"Overall, consumption patterns have changed a lot: "eat-to-go" has gone completely, although earlier it was developing rapidly. Restaurants are closed, people are sitting at home. For example, demand for sunflower oil went up first, and then it fell. We can't compare 2020 and 2019 data, as they are radically different", - said the major producer.

Where does the market go

Market participants are cautious in long-term forecasts. However, new production lines, equipment and recycling projects are being planned, and new players are emerging. "This year we are not expecting large

investments, but the overall trend is towards investing in production, converting and recycling. And this is real money”, - says the industry expert.

To date, pharmaceutical and food sectors remain the most demanded, showing an increase of about 20% since March due to the explosive demand for personal protective equipment and online delivery services.

Russian converters also increased output of PET sheets during pandemic, as these are now widely used in shops, banks, gas stations, and other places where physical contact between people needs to be prevented. Ekopet company has increased daily production by 4,5% and, according to Alexander Anikeev, general director, at the moment the operation rate stands at 109%.

Overall, experts agree that the packaging market will continue to grow, but its focus will shift towards cheaper and lower-margin packaging.

“We still believe that new capacities for PET production and converting in Russia are needed, as the demand will recover, and the lobbyist attempts to restrict plastic packaging have gone quiet. Globally, PET is oversupplied, so the import alternative will remain affordable, but for the Russian market to develop, it needs locally produced granules, preforms, and converted products even more. Moreover, I hope that the share of recycled PET will increase and find its demand”, said **Nikolay Asatiani**, CEO of Creon Energy Asia.

Russian PET market will be discussed in detail at the “Plastics of Russia 2020” conference in Moscow, 24 November ([Program and registration](#)).