

Polypropylene market: replace imports, go for export

In the first half of 2020, domestic production of polypropylene in Russia grew, together with the import of various PP grades. Packaging and nonwovens remained the best-performing consumption segments during the coronavirus pandemic. CREON Group surveyed the leading experts in the industry on how soon other participants of the polypropylene market could recover.

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In the first five months of 2020, Russian polypropylene (PP) producers increased output of various grades by 26% compared to the same period in 2019, reaching 765.3 thousand tons. Main contributors to this growth were the capacities of Sibur's Tobolsk complex (168.6 thousand tons in five months), ZapSibNeftekhim (193.1 thousand tons) and Omsk Poliom (78.9 thousand tons).

At the same time, the import of polypropylene to Russia increased by 15%: from January to May, 85.3 thousand tons of various grades were imported into the country. Despite lower margins in polymer production in the first half of 2020, Russian producers of polyolefin feedstock are adapting their plans to market demands, according to the companies interviewed.

"Strategically we try to replace imports and supply to the market those grades that are not produced locally. Overall, prices for plastics have declined by more than 20%. Feedstock costs have fallen, but plastics converters did not reduce prices for the finished products and, therefore, the profit margin has shifted in their favor. Prices for medical masks grew by several times, although prices for raw materials remained the same, even went down", says a representative of the Russian petrochemical company, the largest in Europe.

Lukoil also confirms plans to partially substitute imported homopolymer PP grades by commissioning a production facility at Kstovo refinery with a capacity of 500.000 tons per year by 2024-2025.

Affordable feedstock from the CIS countries

Prices for polypropylene produced in Russia ranged from 86,500 to 91,500 rubles per ton in the first half of 2020. In June, polypropylene was traded again as low as 86,400 rubles per ton, but the experts polled by CREON Group are cautious in forecasting the future price situation. One of the top-3 Russian PP manufacturers notes: "It is difficult to predict, but most likely the price range will remain the same till the year end. You need to take into account the growing competition: Turkmenistan and Azerbaijan are increasingly active in trying to enter the Russian market".

Though the price offered by the importers is affordable (at 77,000 - 79,000 rubles per ton), not all Russian converting companies are ready to consider Turkmenian or Azerbaijani suppliers, as their quality of PP is lower compared to Russian grades. "Let's say the feedstock from Turkmenistan is cheaper, but we already have our converting technology adapted to a different grade, and it makes the difference fundamental. If we switch from Sibur to Turkmenistan we will inevitably lose the quality of the final product. We did have such an experience in changing the supplier, and it cost us a lot", a representative of the converting company comments.

Growth points: packaging, BOPP films, PPE

Conventional applications of polypropylene are **consumer goods**, including production of containers and packaging, household goods, toys, furniture, films and film threads, nonwoven materials, pipes, compounds, as well as production of automotive components, household appliances and medical products.

The consumer goods (packaging) segment showed strong growth during the COVID-19 pandemic. The peak demand for packaging started at the beginning of restrictive measures in April; manufacturers of PP food packaging saw 20% growth in the first six months of 2020 on average. "March, April and June results were 20% higher than the same month in 2019," – says the producer of PP containers and packaging materials.

Another packaging manufacturer also notes an increased demand for his products, but does not believe that the demand will persist in the second half of the year. "In the first half of the year we saw an upsurge, but for the rest of the year we are projecting slowdown, as consumption will decline along with purchasing power."

A member of the packaging industry association agrees with that assumption: "Everything depends on further demand; non-food products, textile and construction have sagged. In general, food producers now consume 70-75% of PP, the food segment had no losses. The future of the industry depends on the purchasing power of population, but the packaging market can be expected to fall by 20%".

The BOPP film segment showed an increase of about 12-17% during the pandemic, as per market participants. "The demand for BOPP films has grown strongly during the pandemic, in fact, now the whole food industry is packing in film, and food producers are ready to pay for films", comments the largest supplier of packaging film materials in Russia. "In 2020, BOPP films are progressing more confidently than in 2019. However, we are expecting a decline in July-August. The peak of March-April has already passed, these months were very busy. By autumn, the situation will obviously decline, as the warehouses are already full".

Consumption of **nonwovens** also increased by around 40% due to higher demand for personal protective equipment (PPE) during pandemic. "The production of disposable medical products has grown significantly, and they are increasingly required. Consumption grew by 30-50%. It comes to the point that we are fully loaded under prearranged contracts, but we cannot accept new orders, and we will be able to do this only from October-November. Now we are working at full capacity", says the manufacturer of nonwovens.

Many companies previously not focused on masks, such as "Plastic" (Uzlovaya) or a subsidiary of Nizhnekamsk (NKNKh), have switched part of their capacities to produce masks from nonwoven PP since April-May this year. "Global Partner" (Tatarstan) is also preparing an investment project for production of meltblown, a nonwoven material based on polypropylene for medical protective products.

However, the Minister of Industry and Trade of Russia **Denis Manturov** in [an interview](#) with the Vedomosti newspaper warned Russian manufacturers about possible difficulties in sales of final products, since the stocks of PPE are already full. He also advised small businesses investing in PPE production to "carefully assess possible risks and have plans for diversification".

Slowdown in construction and automotive industries

Market participants estimate the fall in polypropylene consumption in the construction segment at 30-40% in the first half of 2020 compared to the same period of the previous year: “The construction segment has dropped significantly. Both production itself and purchases with trade turnover have decreased: pipes, siding, geotextiles. Usually April-May is just a beginning of the season, which is over now, therefore, until the end of the summer, there will be most likely production stops and shortages”, an industry insider comments.

The automotive segment experienced the sharpest drop in PP consumption, the market dipped by at least 60%, as per experts. “Among our customers, car manufacturers have suffered the most, according to our estimates consumption fell by 60% compared to last year. Customers continue to reduce orders, but there is some hope that by the end of the summer there will be an alignment to last year's sales”, says the Russian representative of the leading supplier of thermoplastic materials in Europe.

Trends: polypropylene replaces polystyrene, focus on low-cost packaging

According to industry experts interviewed by CREON Group, one of the main trends in the industry is the gradual withdrawal of polystyrene packaging and its replacement with polypropylene: “The market is starting to take its first steps in this direction. This is particularly the case with lids and trays, there is less and less polystyrene”, says the leading manufacturer of disposable tableware and packaging for the catering market.

A representative of the Russian healthy food retail chain confirms this trend: “In view of the increased home delivery, there are concerns about the packaging itself. In this regard, conventional polypropylene in packs has a number of advantages like heating, recycling and collection, compared to non-bottle PET or polystyrene”.

Another trend, noted by market participants during the survey is the transition to cheaper packaging. Today, even large Russian food holdings are considering cost reduction in packaging and containers in the near future: “Many consumers have less cash, production is also declining; all these factors are affecting us. So far we do not set a goal to reduce the cost of our own packaging, although we are looking for best options for further development”.

At the same time, market participants note a lower relevance of eco-packaging during the COVID-19 period. Overall, the environmental trend has receded into the background, including in the activities of Western companies. However, manufacturers believe that this is a temporary effect, and environmental requirements and initiatives will return with the stabilization of the global situation: “Major players will actively discuss biodegradable packaging and look towards sustainability. The projects were temporarily put on hold, but the subject is still relevant”, a manager of the packaging manufacturing company believes.

Despite temporary difficulties caused by the pandemic, the domestic polypropylene market is developing at an accelerated pace. Bringing the Tobolsk industrial site to full capacity and launching Lukoil enterprises will allow Russia to meet the needs of the local market in polyolefin feedstock and become the largest exporter of base plastics. “The polypropylene market in Russia is steadily oversupplied. We expect a significant increase in polypropylene consumption based on the growth of production capacity in the market, as well as an increase in exports of not only feedstock plastic, but also final products. In this development model, it will be reasonable to approach pricing on the ‘export-plus’ model instead of ‘import-minus’”, says **Olga Juravleva**, board member of CREON Group.

Polyethylene. Polypropylene 2020 Conference: October 20, Moscow ([Program and Registration](#)).

Plastics in Packaging 2020 Conference: October 21, Moscow ([Program and Registration](#)).