

## **The Russian PET market will struggle for raw materials**

**The year 2020 was challenging for Russian PET converting companies. Market participants noted a shortage of feedstock and an increase in prices, among other reasons being disruption of supply chains due to the COVID-19 pandemic, which negatively affected the market. Experts interviewed by CREON Group assessed whether the use of recycled PET in the production of finished products would help to cope with the shortage of raw materials, while the Russian government is developing an appropriate set of measures**

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The global and Russian PET markets have been short of supply since mid-2020. The market situation was affected by a shortage of containers and a manifold increase in the cost of feedstock delivery, while the blocking of the Suez Canal caused heavy problems with logistics.

Massive technical force majeure events (shutdowns due to lockdowns and breakdowns) at European plants have exacerbated the difficult situation: contract and spot prices for PET continue to grow. In the last 12 months only, the PET price in the Russian market grew by more than 50%. The price of the product in June 2021 was 105,139 rubles per ton without VAT.

In the early spring-summer season the purchasing activity has traditionally restored, which may lead to further price increases due to the persistent supply deficit. It is not yet completely clear whether the implementation of new feedstock projects, including the production of "green" granules in Russia and the CIS countries, will be able to level the shortage of the product.

### **Local growth**

According to the Analysis Center of the Russian Ministry of Energy, in 2020 the local PET production increased to 611.8 thousand tons against 550.4 thousand tons a year earlier. Consumption of the product also grew to 732 thousand tons (+30.5 thousand tons y-o-y), despite reduced demand before Q3 2020. Experts attribute this to a change in the consumption structure and an increase in the production of plastic packaging, e. g. plastic bottles, especially large-volume bottles and plastic containers, which in 2020 increased to 643.5 thousand tons (+27.7 thousand tons y-o-y).

The share of PET in the Russian volume of demand for plastics is 12%, with 94% of the granule being bottle-grade PET, and under 3% fiber-grade PET. For comparison, in the world market, this split is significantly different: 28% vs. 62%, respectively. In total, Russia's bottle-grade PET production in 2020 amounted to 579.6 thousand tons, which is 3% higher than the 2019 level.

In 2020, the import of PET to Russia, which covers a quarter of the total demand, decreased by almost 20 thousand tons to 166.2 thousand tons. The main exporter to the Russian market with a 71% share is China, followed by the EU and Belarus: 16% and 15%, respectively. The dominant share in imports (78%) belongs to bottle-grade and fiber PET for technical use.

### **The price**

Until the third quarter of 2020, the PET price in the Russian market was the lowest over the past few years. In August, the price dropped to 59,723 rubles / ton, excluding VAT. However, the deficit in the world market that began in Q4 2020 and the growth in the cost of basic raw materials caused a spike in PET prices in

Asia and Russia by 31% and 48%, respectively. In May 2021, the price exceeded 108 thousand rubles / ton of product, excluding VAT. Further price dynamics will depend on the market balance.

At the same time, the recycled PET price grew by 8.6% to RUB 75,304 / ton, excluding VAT.

### **Green PET**

Several new projects for PET production have been announced in Russia, such as GK Titan, SafPet, IPK and Etana Pure Polymer Plant. Even with some of these projects implemented, annual Russian PET production will grow by at least 9% in 2021-2025.

At the same time, experts interviewed by CREON note the growing market interest in the life cycle of polymers and the use of recycled materials. Russia supports global environmental trends and by the end of July 2021, according to the instructions of the Russian president, the responsible ministries are developing national standards for products containing recycled feedstock from polymer waste.

The instructions given in January by Vladimir Putin also include developing "tax and other incentive measures aimed at ensuring the production of 25% of finished products from PET by 2030 <...> with the obligatory use of recycled feedstock from polymer waste and (or) materials containing such feedstock," says a document published on the [Kremlin](#) website.

Earlier, Sibur started a project to introduce consumption of rPET flakes produced from used PET packaging at the Polief plant in Bashkiria. The launch is scheduled for Q1 2022. "Global demand for recycled polymers in the near future will grow faster than for virgin polymers, but the absolute volumes of consumption are still relatively small," comments the senior project manager at Sibur. According to the expert, the global demand for recycled polymers by 2030 will grow 2.4 times to 48 million tons compared to 20 million tons in 2017, while the demand for virgin polymers will increase only 1.5 times. "The solution to this problem can be the Green Granula project at Polief with the use of in-melt technology, which will make it possible to process 34 thousand tons of recycled materials annually," says a Sibur representative. "The output will be PET of stable quality, food-grade, fit for producing packaging on standard lines without retrofitting the production facilities."

According to Ecotechnology, the consumption of recycled PET (rPET) in Russia in 2020 increased by 12% and amounted to about 196 thousand tons, while imports fell by 33%. As in previous years, almost 100% of imports are made up of PET flakes for the production of polyester fiber. This is the main area of consumption of rPET (68.8%), only 16.6% is used for the production of bottles. "The trend for the use of recycled feedstock is set by the world's largest brands; if they demonstrate their sustainability and focus on the use of recycled materials, despite higher cost and all the economic and geopolitical collapses, the market will confidently follow in the same direction, overcoming all possible difficulties, - explains the representative of "Ecotechnology". "If their knees tremble and they begin to cancel their initiatives, it will strategically change everything that we are seeing now."

### **The wrong EPR**

Introduced in Russia in 2015, the EPR (Extended Producer Responsibility) mechanism has shifted the focus of the waste recycling industry in favor of plastics and has contributed to the demand for recycled materials. Today, 7.8% of all PET packaging is recycled in Russia; over the past four years, this figure has grown almost 9 times. The instructions of the President of the Russian Federation set an even higher bar: by 2030, at least 25% of PET products should be recycled in Russia.

However, the current version of the EPR, in the opinion of market participants, needs significant improvement, since it contains a number of serious omissions. At the moment, the concept lacks information on recycling levels for packaging, as well as a list of unrecyclable goods and packaging, and measures to limit their use. Existing standards should also be reviewed, since the focus on recycled materials has shifted too sharply.

At the moment, the working group on reforming the EPR is improving the concept, where special attention will be paid to increasing the demand for products from recycled materials, including government and municipal procurement. Business takes an active part in the development and implementation of these principles: retail, online platforms, manufacturers actively participate in discussions and round tables on the topic of packaging, initiate requirements for suppliers in terms of environmental packaging, and participate in separate waste collection projects.

“It is obvious that in the next two or three years there will be a serious struggle for feedstock with the prospect of market growth,” says a representative of Ecotechnology. “And those who are involved in the collection, procurement, sorting of feedstock and separate waste collection, who know the tricks of the recycling technology, and are also integrated into the production of products of subsequent processing, will win.”

With the rapidly growing interest in recycled plastics, collection rates are likely to be the next key challenge for the entire industry and further push manufacturers and packers towards easy-to-recycle packaging. Consumers (manufacturers, retailers, etc.) interested in achieving sustainable development goals should set themselves up for patient and mutually beneficial work with recyclers and see them as potential for their own development.

“We are looking forward to co-investment requests from companies interested in recycling, since green polymers are the future,” says **Florian Willershhausen**, Chief Development Officer at Creon Capital. “But until the system for collecting and sorting feedstock for their production is established, the cost of more environmentally friendly PET will remain high. After the commissioning of new PET capacities, consumers and exporters may even switch to a product made from virgin feedstock as more affordable, which contradicts not only to the Russian climate agenda, but also the tightened EU requirements for the environmental friendliness of imports from Eurasia”, the expert warned.

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**CREON MARKET MONITOR:  
POLYETHYLENE TEREPHTHALATE (PET)**



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