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## Energy spikes in '08 created 'demand destruction'

John Kalkowski, Editorial Director -- Packaging Digest, 4/1/2009



For every action, there is a reaction. The runup in energy costs in 2007 and early 2008, has had a huge impact on the plastics market that only now is becoming more obvious.

It is estimated that plastics are now the most popular materials for packaging, with close to 40 percent of the world market, and their use is growing faster than any other packaging material. Plastics' growth has been attributed to advances that allow lighter weights and improved barrier properties to protect the products.

However, as industry expert Nick Vafiadis of Chemical Market Associates, Inc., recently told members of the Flexible Packaging Association at their annual meeting, this rapid rise in energy costs actually created "demand destruction." This comes just at the time the plastics manufacturing industry is seeing rapid growth in offshore

capacity and closures of less-efficient, high-cost operations in mature markets like the U.S. and Western Europe.

Vafiadas pointed out several impacts, including higher costs of raw materials, converting utilities, packaging contents, and increased costs of shipping. The packaging industry had to combat these spiraling costs, and the reaction came quickly.

In the last two years, the packaging industry made several structural changes, and it's unlikely to revert to previous practices. Many of these changes have been attributed to the growth of sustainable practices in packaging, but it's more than just protecting the environment. It's also about protecting the business.

That's why, Vafiadas says, companies have begun downsizing the volume of packages and downgauging the wall thickness wherever they can while still protecting the product. It also means they are adding recycled materials and blending in lower-cost fillers. Higher energy costs also were a catalyst for packaging innovation as companies started to use alternative products.

These moves, coupled with weaker demand due to the global recession, led to a collapse in pricing for plastics in the last quarter of 2008. Vafiadas said the recession accelerated capacity shutdowns and delayed many projects, yet unprecedented oversupply conditions have driven down the operating rates and margins for plastics manufacturers.

So where is the plastics market heading? Vafiadas foresees a recovery in 2010, led by developing countries. Lower prices for plastic materials will stimulate base demand, and he predicts that capacity rationalization will balance supply. So, as the economy improves, plastics should be poised to continue their growth trends in packaging.

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