



KRV statement on the current raw material market

The entire value chain of the plastic pipe industry is under great pressure

Bonn, March 31, 2021. All partners in the value chain of the plastic pipe industry – at the end of which are the manufacturers of plastic pipes, components and fittings – are currently facing extreme challenges. In addition to the severely limited availability of raw material and pipe material for all partners, significant price increases can also be observed along the entire value chain. This applies to all stages of the supply chain for plastic pipes made from PE, PP and PVC.

The Kunststoffrohrverband e.V. (KRV) notes that extreme challenges exist in all areas of the supply chain. Although everyone involved is working flat out to minimize the resulting risks for their customers, they also point out the considerable economic pressure that is burdening the entire industry.

The plastic pipe industry is therefore very concerned about the impending raw material shortages and the large number of force majeure reports that raw material manufacturers have declared for PP, PE and PVC in recent weeks.

Background

The reasons for the currently so tense situation of plastics processors are diverse and complex at the same time: The Covid-19 pandemic led to an imbalance in the supply and demand of plastic products worldwide. This is primarily due to the fact that Asia, especially China, returned to the growth path in the second half of 2020 and the demand for raw materials there increased earlier than in Europe or the USA. This not only resulted in a considerable outflow of raw materials into the Asian region, but also led to a very sharp rise in freight and logistics costs, which continue to burden the industry.

The situation was exacerbated at the beginning of the year by massive plant failures on the part of the raw material manufacturers as a result of the onset of winter in large parts of the USA, which represented a severe stress test for the already strained supply chains and which continue to affect the supply of European customers with products from the USA to this day.

The planned, technically necessary or legally required maintenance work in European plants as well as the force majeure reports from numerous plastics manufacturers, which give rise to the fear of considerable production downtimes, also put further pressure on the availability of raw materials.

Causes of the price increases in the plastic pipe industry

The causes of the price increases in the plastic pipe industry are therefore not justified monocausally, but rather the result of several interacting aspects, which in their overall picture are as follows:

Raw material (naphtha)

A decisive factor is the price increase in the area of raw materials. The processes in the refineries produce products such as petrol, diesel fuel, heating oil and kerosene. At the same time, raw materials such as liquid gas, naphtha and middle distillate are produced for the chemical industry. As the demand for automotive fuels and kerosene in recent months, has decreased due to the Corona crisis, the production quantities for naphtha (as a raw material for plastic production) have also decreased, which has resulted in a price increase.

Intermediate products (monomers)

Due to the price increases for the petrochemical raw material (naphtha) for the production of plastics, the costs for ethylene, the intermediate product for polyethylene and polyvinylchloride, as well as for propylene, the intermediate product for polypropylene, have risen accordingly. In the first quarter of 2021 even in the double-digit percentage range.

Pipe materials (polymers)

As a result of the price increases for raw material and intermediate products, the prices for pipe plastics in Europe also rose sharply throughout the first quarter of 2021. In addition to PE, PP and PVC, this also applies to other pipe materials.

Use of recyclates

Since it is only possible to switch to recycling materials for plastic pipe applications to a limited extent, the price increases cannot be cushioned by switching to alternative materials such as recycled materials. Because for many security-relevant pressure applications, legal security regulations, technical regulations and high quality requirements currently prevent the widespread use of recyclates. In many cases, recyclates are also not yet available in sufficient quantities of consistent quality. As a result, the price increases hit the plastic pipe industry hard.

Logistics

In addition, the slump in world trade at the beginning of the Covid-19 pandemic and the sharp rise in demand in the fourth quarter of 2020 have led to sometimes chaotic situations in the freight business: there is often a lack of containers that have stranded in the wrong ports as a result of the pandemic. The scarce supply and strong demand for freight capacity, for example, have caused container prices on the Asia-Europe route to rise by more than 400 % since the end of 2020. Imports of raw materials or pipe systems cannot compensate for the production losses in Europe.