

PVC market recovering through delayed demand

The recovery of the PVC market is steady enough, compared to other plastics segments, as Russian PVC producers say. Meanwhile, consumers of PVC resin are reporting shortages and continued price growth, while import and domestic production go higher. How will the Russian PVC market develop further? The leading experts are sharing their views to CREON Group.

Maria Dymenko, Alina Ilyicheva

Over the first six months, the total volumes of polyvinyl chloride (PVC) produced in the RF increased by 1% compared to the same period in 2019, amounting to 509,300 tons. PVC resin production grew at all Russian plants, except for the Bashkir Soda Company, which has stopped PVC production in mid-June for five days due to ethylene supply shortfalls.

In January-June 2020 the import of suspension PVC (S-PVC) increased by 5% and reached 13,800 tons. The largest growth of resin supplies belongs to the US, while supply of base polymer from Europe also increased significantly. "In July, we were still buying the European PVC, but in August with the current ruble exchange rate, it is simply unprofitable", comments a producer of PVC compositions.

At the same time, export volumes increased in the first half of the year and amounted to 110,400 tons compared to 102,900 tons a year earlier (+7%). India became the main consumer market for Russian S-PVC in 2020. In April, Sayanskkhimplast confirmed to CREON Group its intentions to increase export to Asia: "We fulfill all our obligations to customers, shipments are going smoothly and on schedule", said **Andrey Filev**, the company's sales director. "But if Russian converting companies do not recover in a coming month or two, we will have to export our product to resurging markets in China and India".

The emulsion PVC (E-PVC) segment remains import-dependent with an imported volume of 80,000 tons per year.

Shortage and higher price

Due to COVID-19 restrictions in April and May, some Russian PVC converting companies were forced to suspend production, afterwards the demand for resin fell significantly. The start of peak season in June and lifting the quarantine dramatically changed the market situation: demand began to rebound dynamically. However, the scheduled turnarounds of the two largest plants simultaneously, with a total capacity of about 680,000 tons per year, Sayanskkhimplast (30 days from 08/07) and RusVinyl (14 days from 13/07), significantly reduced the feedstock supply to the Russian market. At the same time, the cost of PVC resin in the international markets rose by an average of 10%, which in turn lifted the price of Russian material to the April level. In July, the price of PVC rose by 11% compared to May and June to 82,000 rubles compared to 73,000 rubles per ton (VAT included).

"Overall, the plastics market is doing well, but it is difficult to predict what the situation will be in the market in two or four months. For us, this is definitely a tough year. The market is shrinking in the midst of the pandemic. The cost of feedstock and ethylene strongly depends on oil prices: oil rises, the price rises, the same with resin: all these are links in a chain", comments one of PVC producers.

PVC converters interviewed by CREON Group predict further price increase for resin: "In April there was a price spike due to the ruble exchange rate and the pandemic, then the producers played back prices, the situation was extremely unstable", says a large Russian converting company. — Now the prices for feedstock continue to rise, and we expect that this trend will continue in August-September".

"The market is in a decline while raw materials are growing: by 7 rubles per kg in July, by another 2-3 rubles in August", says a large manufacturer of window systems. — "Despite the fact that there is some recovery after quarantine, the downturn will be both in the window segment as a whole and in the window profile in particular".

Traders agree with the forecasts of converting companies that the price will grow in the near future, as they see no alternatives to replace domestic feedstock at the current ruble exchange rate: "Stoppage of RusVinyl and Sayanskkhimplast created an artificial excitement and shortage, resulting in the increase of PVC price by 6-7 rubles per kg, and more price increases are still planned for August. Now the plants are trying to compensate for a difficult period, and the converters have to adapt to it. However, the situation is not new; it has always been the case just under different circumstances. China and Europe are also increasing prices due to ethylene price rise, so there is still no alternative".

Consumption segments

The largest recovery is in the **PVC window segment** with producers reporting an explosive wave of delayed demand. However, their optimism is limited by the expectation of an early end of season and a second wave of coronavirus. "April was a downfall, a massive surge started in May", says the representative of the international window-producing enterprise. — "Now we are operating at 100% rate. Here, feedstock was at affordable price in June, and the delayed demand played a role. There will definitely be a loss for the year, although initially we expected the results to be at least similar to the previous period. The pandemic has had its impact, not as severely as we expected. However, situation can be difficult if the second wave begins".

The **PVC pipes** segment is reaching planned volumes for the current year through federal projects and construction of new hospitals for treatment of coronavirus infection. "This year we will have good results, during the pandemic we have received a status of "systemically important enterprise", — commented the largest Russian pipe manufacturer. — The construction sites we were involved in, were in operation all the time, and our pipes were supplied to the hospitals being built. Tight delivery deadlines were set during quarantine, like 10 days, so we worked to our limits".

The **PE** (profile extrusion) segment is also stabilizing; **siding** manufacturers are expecting peak season, despite a broad market downturn in Russia: "If we compare 2019 and 2020, this year is certainly difficult and the situation is fundamentally different. There was no beginning of the season in April, however, now due to the high season the situation has more or less stabilized".

Packaging manufacturers (**special and food-grade PVC films**) do not observe any changes compared to last year. "We deal with special films and food wraps, PVC performance doesn't differ from last year. Although PET is now considered a highly promising material, PVC demand is not falling. So far, this category remains the largest in our portfolio", — comments a packaging producer.

The **soft flooring** segment is steadily recovering, but at the same time there is increased competition when large players squeeze out smaller ones. "Summer's high season helps to recover; there are a lot of orders due to delayed demand. In August-September we are also expecting high demand. In total, 2020 will catch up 2019 performance if there is no second wave of pandemic", — says the linoleum manufacturer.

Over the last 10 years the **market of cable plastics** has been shrinking, however delayed demand partly compensated that drawdown. But even with the current boom, many players expect a serious decline at the end of the season. "We didn't stop production through all this time; of course there was a pitfall, but now the season is underway and we have orders. Suspended projects have been resumed, so today you can just walk around construction sites and collect orders", — the manufacturer of cable-grade PVC plasticizers says.

Recycling and carbon footprint

For more than 20 years in Europe post-consumer PVC windows re-processing system has been in place, providing for practically waste-free production of PVC windows. As per European legislation, the EU manufacturers are obliged to use recycled feedstock in the production of new windows in 100% of cases.

Russian companies are not so willingly involved in applying green technologies in processing and sourcing recycled PVC due to the substantial initial investments needed. For example, a medium-sized window enterprise has to invest at least €3 million in recycling technologies. However, rising prices for virgin feedstock

justify investments in recycling. "Recycled products are in demand and it will continue to be so. Most likely they will increase in value, which always reflects situation in virgin feedstock: one grows and the other too", — says a large Russian converting company.

An additional factor for the development of PVC recycling in Russia could be a carbon tax of \$30 per ton of CO₂ emissions which the EU is going to introduce in late 2021 — early 2022. This measure will not only affect carbon-intensive supplies, but will also have an indirect impact on all sectors of Russian economy. BCG analysts estimated that the additional tax burden on Russian exporters could be between \$3 billion and \$4.8 billion per year. However, Russian PVC producers surveyed by CREON Group do not see the risks in the EU's tax plans. "The European market is not so relevant to us: the share of EU customers is quite small in the export portfolio of the company; the Asian market has been and remains the highest priority", comments **Andrey Filev**, Sayanskkhimplast's sales director.

"The issue of carbon footprint for Russia is not yet relevant; it isn't a priority. Probably, this issue is important in Europe, but most Russian producers export to India and Turkey, and the rules are quite different there", notes another producer.

"Russian PVC market remains impervious to external factors so far. Production is excessive, domestic consumption and prices are regulated by exports, and imports are used to balance supply and demand during scheduled turnarounds of the plants. Progressing to a new level should become a priority task for all participants in the domestic PVC market", — summarizes **Olga Zhuravleva**, board member of CREON Group.

PVC 2020 Conference: December 2, Moscow (Program and Registration).