

MARKETS

Plastic phase-out: which companies will be most affected?

Our latest research looks at some of the potential winners and losers from the war on plastic.

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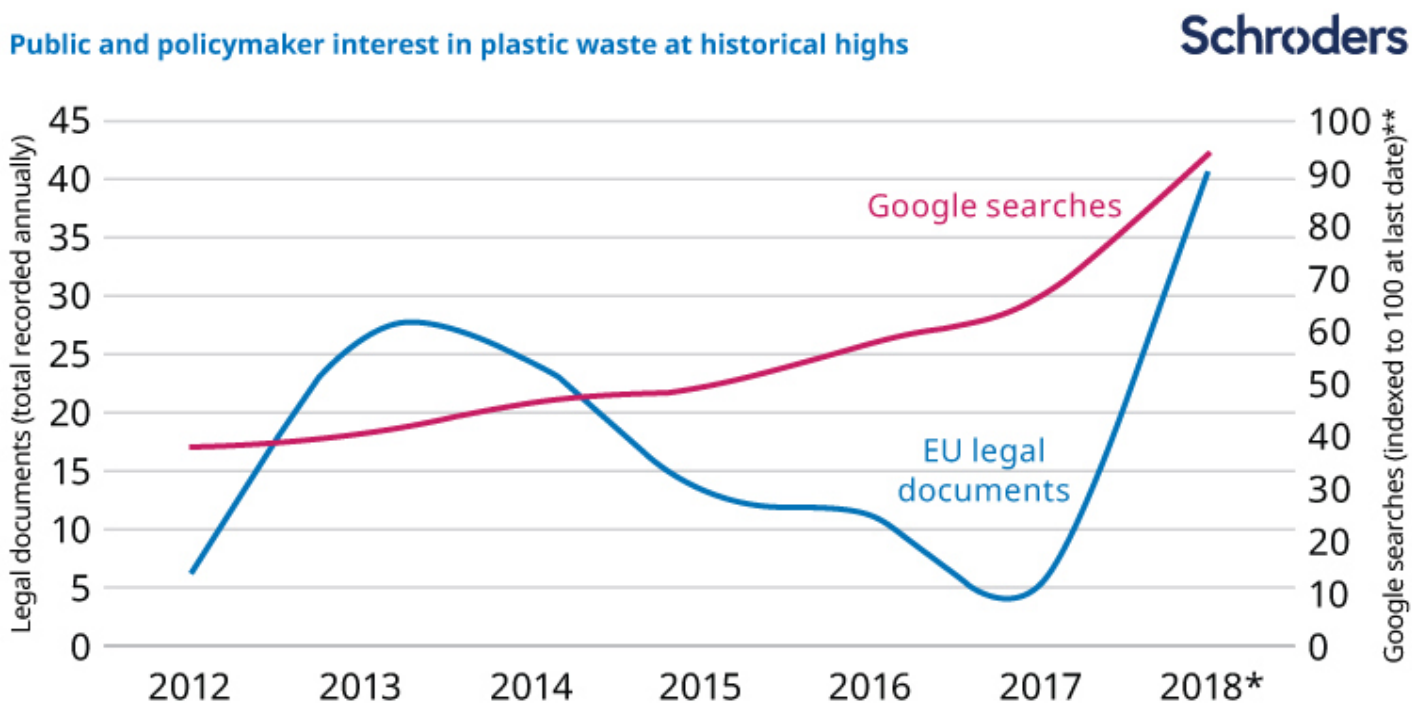
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The use of plastics has come under intense scrutiny in recent months. Prompted by headlines like “More plastic than fish in the oceans by 2050[1] ([file:///O:/0Investment%20Writing_RESTORE/Top\[\(20down\) was not found\]20and%20economics/Talking\[\(20Point\) was not found\]20Articles/2018/2018_April_Plastics_SS.docx#_ftn1](file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftn1))” and “UN commits to stop ocean plastic waste[2] ([file:///O:/0Investment%20Writing_RESTORE/Top\[\(20down\) was not found\]20and%20economics/Talking\[\(20Point\) was not found\]20Articles/2018/2018_April_Plastics_SS.docx#_ftn2](file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftn2))”, consumers and regulators have turned their attention to an issue that has escaped mainstream focus until recently. Concerns regarding plastics are well past a tipping point of public concern and regulatory action.



Source: EUR-Lex database, Google.

* 2018 is annualised value based on Q1 values.

** Numbers represent Google search interest for 'plastic waste' over time.

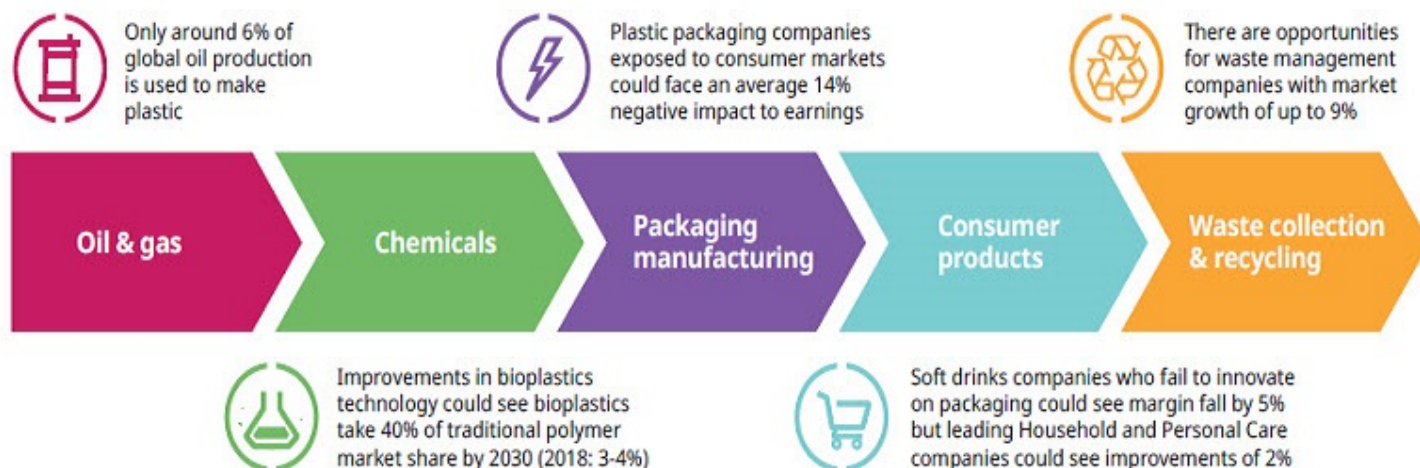
Plastics manufacturers most at risk

The impacts to date have been relatively modest and focused on narrow areas. While individual plastic products have found themselves in the limelight, the issue spreads much further than carrier bags, micro beads or straws.

We apply a broader lens to the wider plastics landscape, assessing the areas of consumer packaging likely to face the most pressure, the companies that supply those products and the raw materials they contain.

While consumer companies have been most visibly affected by the increased attention, the impacts elsewhere in plastics value chains – among packaging companies and raw material suppliers – are likely to be more intense and disruptive. We have looked through that value chain to assess potential risks, the companies exposed to them and the steps some leaders are taking. We expect the biggest impacts to be felt by manufacturers of plastic packaging.

Figure 2: Consumer plastics touch a range of industries



Source: Schroders

- Consumer companies** will need to reduce plastics use by substituting single use plastics for alternative materials or redesigning or reducing packaging. A long list of companies has already announced plans to change their approaches to packaging use. For instance, Costa Coffee owner Whitbread has launched a nationwide recycling scheme, Coca-Cola has committed to collect and recycle the equivalent of all its packaging in Western Europe by 2030 and McDonald's plans to make all of its packaging renewable or recyclable by 2025. There will be costs to retooling equipment, reconfiguring supply chains and in some cases higher materials costs. However, our analysis shows that companies already adapting to these trends may benefit. Cost savings achieved by lower packaging use, improved consumer perceptions and reduced regulatory risks could contribute to higher margins for food producers and household & personal product companies. We find that soft drinks companies carrying on with business-as-usual face the biggest downside risks.
- Packaging companies** face bigger challenges. Currently, 37% of consumer packaging is plastic^[3] (file:///O:/Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftn3), the outlook for which is clearly challenged. On the other hand, leaders that are able to develop sustainable alternatives – like bioplastics or improved recyclability – will emerge from these challenges stronger. They should be able to establish distinctive products for which they have pricing leverage, replacing their current reliance on traditional commodity plastics categories. While some major players are already directing their innovation efforts to developing more sustainable packaging, we believe that innovation is too slow to allow the industry as a whole to pivot away from traditional plastics undamaged. Our analysis of the operating profit exposures of individual packaging

companies highlights the value of leadership, with well-placed companies suffering little impact and laggards seeing up to one-third of earnings at risk.

- **Chemicals companies** are starting to develop compostable, bio-based plastics as well as different types of polymers that can achieve reductions in material use. Bioplastics and compostable materials are starting to gain traction. The bioplastic market is set to grow at a 30% compound annual growth rate to 2030 (from 2013), compared to an average of 3% growth for fossil-based plastic^[4] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftn4). They have their flaws: they can be hard to recycle, more expensive to make, and not yet available in large quantities, but improvements in cellulose conversion technology are expected to enhance the quality, quantity and cost. As manufacturers face pressure from their consumer-facing customers, the more innovative companies should gain market share. Most of those beneficiaries appear likely to emerge from the current industry leaders.
- **Waste utility and recycling companies** are likely to benefit from growing demand for end-of-life recycling and reuse. Recent Chinese waste import restrictions, coupled with increased political and regulatory pressure on plastic waste, create a potential springboard for the recycling industry. New geographies, new applications and new products could lead to market growth of 7-9%. Picking out winners from a fragmented, highly competitive industry is challenging and we think localised solutions will be key.
- **Oil** is the main raw material used in plastics production. However, 4-8% of global oil production is used to make plastic^[5] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftn5), of which an estimated half is used for packaging. As a result, the impact on that market is likely to be modest, although the issue unhelpfully compounds the wider challenges facing the energy sector.

Single use plastics have become ubiquitous in today's consumer product industries and value chains. We expect pressures to spread from the specific niches on which attention has focused so far, to the wider range of products contributing to a global environmental challenge that has begun to move from ecological concern to economic driver.

[1] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftnref1) G. Wearden, "[More plastic than fish in the sea by 2050, says Ellen MacArthur](https://www.theguardian.com/business/2016/jan/19/more-plastic-than-fish-in-the-sea-by-2050-warns-ellen-macarthur) (<https://www.theguardian.com/business/2016/jan/19/more-plastic-than-fish-in-the-sea-by-2050-warns-ellen-macarthur>)", The Guardian, January 2016

[2] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftnref2) R. Harrabin, "[UN commits to stop ocean plastic waste](http://www.bbc.co.uk/news/science-environment-42239895) (<http://www.bbc.co.uk/news/science-environment-42239895>)", BBC News, December 2017

[3] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftnref3) Unwrapping the Packaging Industry, EY, 2013

[4] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftnref4) "Global Bioplastics Market Predicted To Grow 350%", Energy and Gold, March 2016

[5] (file:///O:/0Investment%20Writing_RESTORE/Top[(20down) was not found]20and%20economics/Talking[(20Point) was not found]20Articles/2018/2018_April_Plastics_SS.docx#_ftnref5) New Plastics Economy: Rethinking the Future, Ellen MacArthur Foundation, December 2017

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