



PRESS RELEASE 08/9894

**PAFA WARNS THAT SUBSTANTIAL INCREASES IN FILM PRICES ARE INEVITABLE  
INDUSTRY ENCOUNTERS UNPRECEDENTED POLYMER PRICE INCREASES  
AND TIGHTNESS OF SUPPLY**

PAFA, the trade association representing UK plastic film and flexible packaging suppliers, has issued a warning of substantial price increases in their products following the dramatic recent explosion in the cost of many polymers. In some cases these amount to 250 Euros per tonne on top of the monthly increases previously applied.

The situation is further exacerbated by large increases in energy costs - rising as much as 50% in a year - along with additional transport, ink, and allied materials costs which have left the Industry with no option but to pass the increases through the supply chain.

The warning was issued by PAFA Chief Executive David Tyson who pointed out that the supply situation has been aggravated over the last two months by most major polymer producers announcing 'force majeure' including Borealis, Dow, Europa, Ineos, Polimeri, Repsol and Sabic. Supply has also been restricted by many suppliers operating maintenance programmes at this time. PAFA says the unprecedented effects of tight supply are being seen throughout the film producing industry with the larger users showing equal concern on securing the volumes they need.

Tyson also pointed out that any resistance by buyers to accept the reality of the situation, and weakness by suppliers in imposing it, could result in businesses failing within weeks due to cash flow problems.

"It has been difficult enough to recover the previous monthly increases in rising polymer costs which have varied between 50 and 100 Euros per tonne per month but increases of this size give suppliers absolutely no choice. The increases have been driven by massive movements in the cost of basic polymer feedstocks, particularly naphtha which look set to continue in what is one of the tightest supply situations for many years. There is clearly insufficient polymer around for those looking for additional volumes and buyers would be well advised to utilise their established streams of supply to ensure continuity in these difficult times" said Tyson.

PAFA also made it clear that many suppliers are now abandoning traditional pricing tied to published, index-linked mechanisms as they are no longer responsive enough to massive price changes. "With around 4-6 week lead-times for flexible packaging products, the raw material costs at time of manufacturer no longer bear any resemblance to index levels at the time of order. When polymer went up and down over short time periods some balancing could be obtained but not in these highly unstable market conditions." Tyson said.

"Going forward we are in for a tough ride both in terms of price and volume availability and the reality of the situation needs to be recognised by all. It is highly unlikely we will get any respite or stock-building during the summer season. The pattern of demand and supply last year showed that Europe has switched its approach from stock building whilst film producers closed their plants for the holiday period to one of continual production keeping stocks at a very low level."

PAFA's statement also warned that if the industry is to maintain viable businesses, it is inevitable that there will be further substantial increases in prices before too long. Tyson explained. "We are being forced to look for recovery of these exceptional cost rises if we are to secure our UK-based flexible packaging and film suppliers and continue our role in supporting the advanced supply chain structure most major packers and retailers require. This means supplier/buyer relationships will be critical during the coming months. In spite of the gloom, we believe the supply chain can be managed effectively but only if all parties adopt a realistic and sensitive approach."

The trade association emphasised that customers and flexible packaging/film producers will face shared problems in order to recover these exceptional costs. It said that price pressures exerted in the packaging supply chain by the most powerful retailers will remain a significant factor but this needs to be balanced against the reality of supply availability and price viability. "Scarcity of supply will result in materials being re-directed to those markets and geographical areas which allow the opportunity for added value and the recovery of costs downstream" concluded Tyson.

**ENDS**

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