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41° CONVEGNO NAZIONALE



# Supply chain challenges...and opportunities in the European Folding Carton sector



- **ECMA – who are we?**
- **European carton prospects – 2021**
  - Past & future growth
  - European Folding carton structure
- **Current conditions prevailing in the European folding carton market**
  - Longer term impact of the last 18 months on the folding carton market
  - Key trends within our sector and how they might develop over the next 5 years
  - How brand owner and retailers needs might change for our sector



# Who are ECMA?



- ECMA represent 500+ folding carton converters and cartonboard mills in 22 countries
- 70,000 staff / 82% of the European market
- Core focus - to promote and defend cartonboard & folding cartons
- We engage with policymakers and work closely with other industry stakeholders



# European Folding Carton Market 2020 – Volume & Value



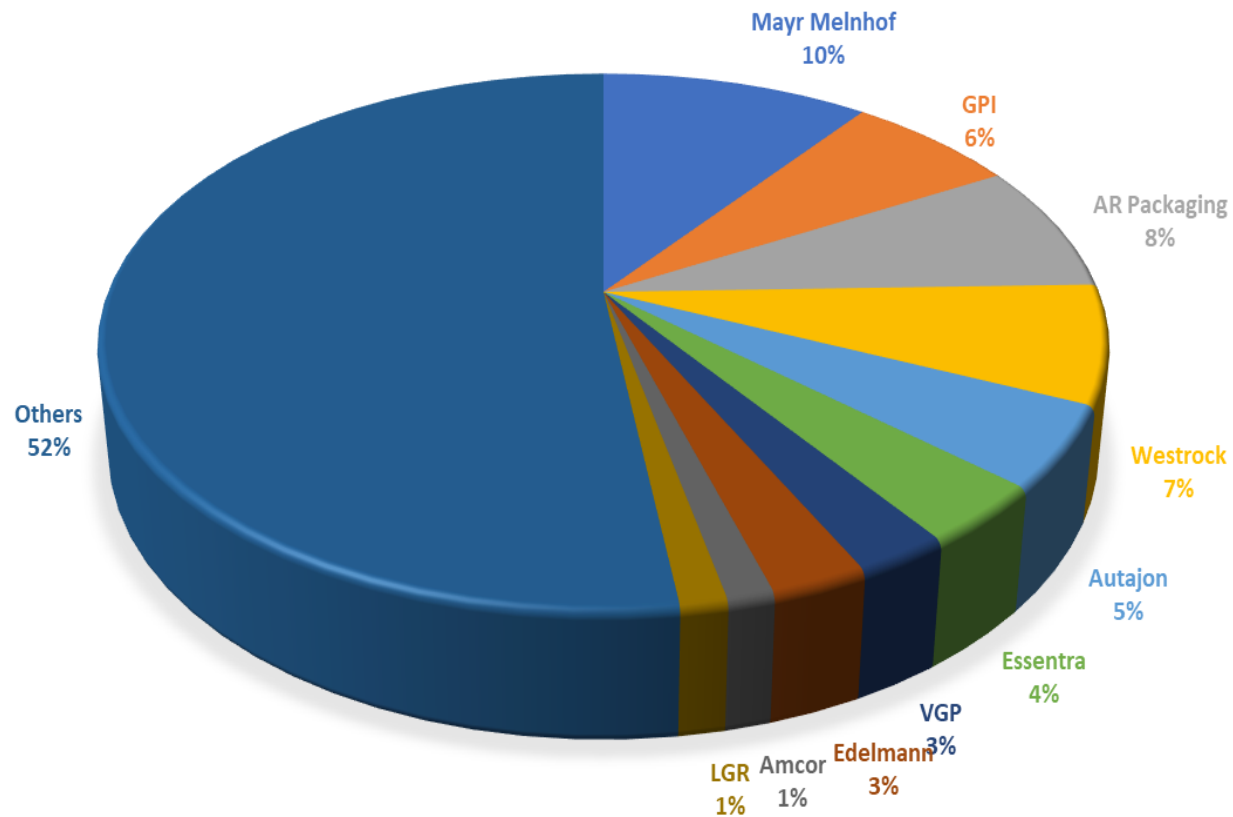
## Summary Estimates & Forecasts of European Carton Production – 2015, 2020 & 2025 – 000 Tonnes & € Million

	2015	2020	2025	15 to 20	20 to 25
				% p.a.	% p.a.
Cartonboard Purchases: 000 Tonnes	5910	6784	8316	2.8	4.2
Carton Output: 000 Tonnes	5540	6312	7598	2.6	3.8
Sales by European Carton Converters: €m	11231	12177	14725	1.6	3.9

- The European folding carton market is **6.312m tonnes** by volume and **€12177m** by sales value.
- Grew over last 5 years at +2.8% YOY by volume and +1.6% by sales value.
- Due to grow over next 5 years at +3.8% by volume and +3.9% by sales value.

# European Folding Carton Structure - 2021

EUROPEAN FOLDING CARTON - STRUCTURE (2021)



- The Top 10 folding carton converters represent 52 % of the market.
- GPI / AR Packaging will become the largest FC converter in Europe.
- Mayr Melnhof is the only EU vertically integrated company within the Top 10 carton converters.





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# What has happened – 2020, 2021, 2022....



# What happened for Folding Cartons in 2020?



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## **Covid strikes Q1, 2020**

- Food & Drink sales growth / some Foodservice, Luxury Goods & Duty Free sales decline
- Supermarkets see strong sales
- Folding carton suppliers across Europe praised for their positive response & support for the supply chain (and recognised with “key worker” status)
- Supply chain issues starting to develop –
  - waste paper collection issues / subsequent shortages in recycled fibre
  - staff shortages due to Covid sicknesses
  - shortages of some basic goods (Pallets, Wood, Nails, etc.)
  - Shipping costs from Far East increase
- Shortages of packaging for food and non-food goods start to emerge
- Green transition...plastic to fibre



# What happened for Folding Cartons in 2021...supply?



- Price of containers leaps from \$3k to \$18k halting supply of Chinese folding cartons & board
- Q1
  - Logistics issues across Europe
  - Brexit affects movement of goods at several ports and on-going distribution problems
  - Waste paper sold to non-EU mills (due to better pricing)
  - Strong Retail and Brand owner demand for folding cartons
- Mill lead times go out from 3 to 5 weeks to 12 to 15 weeks for new business
- Rumours of shortages of mill stock spread (driving subsequent leap in orders)
- Folding carton demand rises even further while extended lead times triggers more orders
- Demand for recycled fibre continues (for all paper packaging formats)





# What happened for Folding Cartons in 2021...demand?



- Q1 2021 – Covid stocks needed replacing, Brexit stock build needs replacing and strong demand maintained in selected End Use Markets = Overall leap in demand for Folding Cartons
- Green transition – plastic to fibre accelerates
- Purchase orders range from +10% to +30% in some months versus Q1, 2021!
- Strong demand maintained for food & drink packaging
- Board price inflation (some challenges passing costs through due to fixed price contracts)



# What happened in other markets in 2021?...corrugated



- Brexit adds complexity into the supply chain (lorries carrying paper stocks are delayed, ports disrupted, paperwork delays slow down movement of goods, etc.)
- 4 new recycling mills come on stream in Europe **BUT** not enough recycled fibre to feed the new demand
- Lead times for new boxes & sheet board leap from 5 to 7 days up to 10 weeks!
- First price increases for paper and board happens in January 2021; 4 more PIs since then and more announced
- Demand running at +5% overall (i.e. even higher than for 2020)
- Recycled papers in short supply Q1 & Q2, virgin papers in short supply in Q3, 2021



# What has happened for Folding Cartons in 2022?



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## ○ Energy

- Hot Asian summers / cold European winters / covid reduces gas output = reduction of gas storage levels
- Russia invades Ukraine / embargos implemented by EU / NA
- Wholesale gas prices have increased 350% over the last 10 months
- Plastics / metal / glass packaging effected more than paper!

## ○ Supply & demand

- Mills announce further increases & energy surcharges
- Folding carton demand is high
- Orders for cartonboard is high – most mills are full
- Lead times extended by up to 16 weeks
- Some cartonboard shipping from Far East...

## ○ Green transition – its real!

- France (and Spain) legislate to ban plastic fruit & veg packaging



# Brand owner & retailer push / pull factors



- EPR tax increases / eco-modulation
- Legislation
  - Plastic tax
  - PPWD /Essential Requirements

- Anti plastic sentiment
- Consumers demand sustainable packaging



# Trends & forecast...

- Covid has delivered major changes to the way that we purchase products
- This has delivered major product mix changes for the folding carton market
- Folding carton companies are squeezed between demand from International Brand Owners and pressure from the major Paper Mill groups
- Demand for Folding cartons will remain high due to the GREEN wave (1 tonne of plastic out means approx. 4 tonnes of fibre to replace)
- Mills may be challenged to meet this GREEN demand.
- Increased focus to improve forecasting / avoid stock build
- More industry consolidation is likely



# Sustainability – the facts



- European forests are growing by 2% net per year (equates to 1500 football pitches per day or an area the size of Switzerland since 1950)
- European forests and forest-based sector absorbs 20% of European GHG emissions
- Consumers prefer fibre packaging:
  - 62% say it is better for the environment,
  - 57% say it is easier to recycle and
  - 79% prefer fibre packaging over other packaging materials.
  - 88% of young adults OK to pay more for enviro packaging





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Thank you & questions

