The Packaging Federation

UK Market Report 3

The Packaging Federation

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The Packaging Federation (PF) – the voice of UK packaging manufacturing

- This report includes some results from a **first** business confidence survey for the sector to provide an historic, as well as more current, perspective, on events.

- The packaging manufacturing sector continues to gain greater recognition and received Ministerial support from DTI Ministers Stephen Timms, MP and Nigel Griffiths, MP, which the PF greatly appreciates.

- A milestone in the sector's recognition was the publication of a **first** competitiveness study, undertaken by PIRA with PF assistance, for the DTI. A summary and the full report are available on the PF web-site, www.packagingfedn.co.uk.

- The report made a number of recommendations including a call for greater cohesion to improve representation of the sector to Government.

- As of 1 January 2004, the PF embraces both individual packaging manufacturing (converting) companies and allied trade associations with strong packaging interests as affiliated members: Pro Carton (Association of European Cartonboard and Carton Manufacturers), LFCMA (Liquid Food Carton Manufacturers' Association), MPMA (Metal Packaging Manufacturers' Association), British Glass, PIFA (The Packaging and Industrial Films Association) and BPF (British Plastics Federation).

- The promotion of sustainable development was undertaken through participation in the DTI/DEFRA Pioneers Group; and

- In partnership with *Packaging News*, Enviropack I and II conferences in Westminster 2003 and 2004. The conferences' key-note speakers were the ex-Minister for the Environment, Rt Hon Michael Meacher, MP and Dr Caroline Jackson, MEP

- Initiatives in the sector were recognised during 2003 by the noteworthy achievement of the Queen's Awards for Enterprise: Sustainable Development category to PF member, Rockware Glass.

- Recycling is very important to the sector's sustainability, so the PF produced an interactive CD for local authorities – *separate:regenerate* – to demonstrate what happens to packaging waste after it has been collected and, importantly, to encourage greater participation in both collection and the use of recycled products. The funding for this activity came from landfill tax donated by the Resource Recovery Forum.

*DTI Minister,
Nigel Griffiths, MP addressing the packaging manufacturing industry annual parliamentary reception, October 2003.*

Key data for UK packaging manufacturing industry

Although under pressure from the decline in UK manufacturing, the UK packaging converting industry remains vibrant and thriving:

- **Productivity levels up by 10.2% in 2001 over 2000**
- **It provides a valuable consumer service – the average Briton can buy 35% more goods and services in 2003 than in 1992**
- **Some markets are mature and declining, but others are growing – convenience and food service sectors are the fastest growing of the food market. The overall UK packaging use is estimated to grow c0.5% per annum to 2008**
- **Flexible to meet customer demands – a typical large retailer has 10,000 own brand packaged lines plus 10% new lines per annum and 10-20% reformulations per annum**
- **Innovative – minimisation through light-weighting and technology development**
- **5% reduction in weight in the UK soft drinks market during 1997-2003 – equivalent to over 330,000 tes packaging waste reduction**
- **UK packaging waste recovery increased from 33% in 1998 to 50% in 2002**
- **UK employment in the packaging manufacturing industry in 2001 was approximately 93,000 – 7.3% down on the previous year**
- **Exports remain constant at about £1bn, but imports increasing in 2002 taking approximately 18% by value of total packaging supply up from 13% in 1997**
- **There has been increased capital investment in recycling and production, but a decrease in investment in UK packaging machinery by 6.5% in the last five years**
- **The business confidence survey shows more optimism for future sales, but at the expense of further margin erosion.**

Introduction

This year's report is a combination of the annual official data for 2002, and the first business confidence survey for the sector, to provide current as well as an historical perspective on the industry. Both these sets of data were compiled by Landell Mills Consulting.

The business confidence survey was based on results from 82 UK packaging material converters and 18 packaging machinery companies. It was a judgement sample of senior directors and managers carried out in the period Sept/Oct 2003.

The PF reports differentiate between UK packaging manufacturing and UK packaging use. The former reflects the sector's trade and employment patterns, whilst the latter reflects UK consumption patterns. Due to the increasing range and volume of imported packed goods, there is a growing discrepancy between the two sets of data.

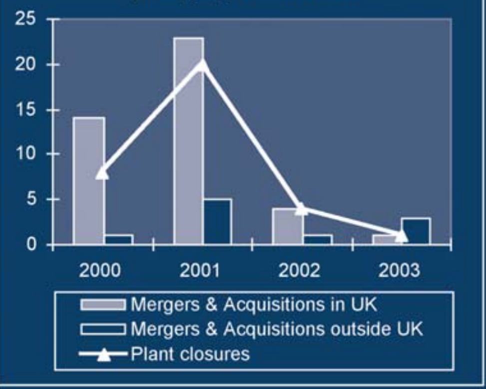
Consolidation in the industry

- In order to remain competitive, the UK packaging manufacturing industry has had to undergo some radical changes in the last three years, as shown in **Figure 1**.
- Note that in 2003 more acquisitions were taking place outside of the UK than within.
- **Figure 2** shows the results of the business confidence survey, which demonstrates that senior figures in the industry feel that much more consolidation is still to come.

UK industry trends

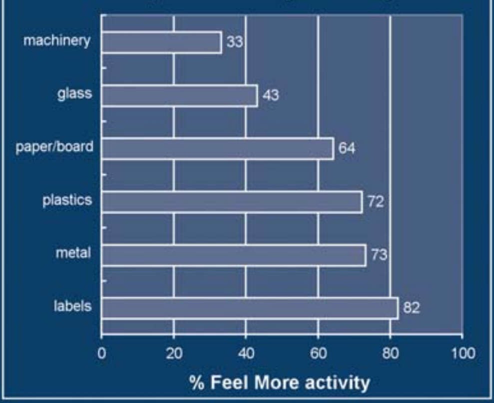
- The trend in net value of UK packaging manufacture over the last five years has been downward, as shown in **Figure 3**.
- For the first time in this series of reports, the UK machinery sector has also been examined.
- **Figure 3** shows the close correlation between the fortunes of the UK packaging conversion market and the UK machinery market. However, sadly the UK packaging manufacturing industry is equiped by mainly non-UK machinery suppliers.
- Whilst it does show a 6% decline in the net value of UK packaging supply over the period 1997 to 2002, it also shows some marked variations, with the 2000/1 improved value believed to be due to a number of factors, e.g. exchange rates, the relative decline of imports, and the increased UK market manufacture of drinks.

Figure 1: Changing shape of UK packaging manufacturers



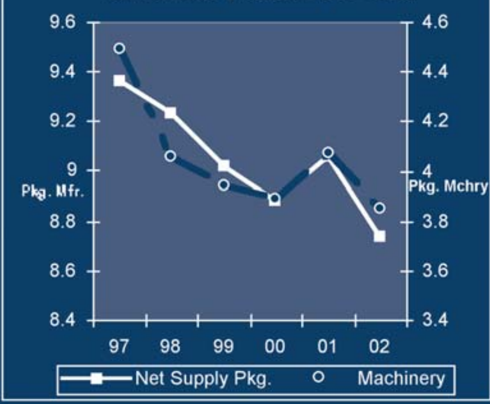
Source: Landell Mills Consulting

Figure 2: Expectations of Merger & Acquisition activity next two years?



Source: Landell Mills Consulting

Figure 3: UK packaging manufacturing and machinery markets (T/O £Bn.)



Source: Landell Mills Consulting estimates based on ONS data

How do we compare to other UK sectors?

- UK packaging manufacturing remains an important trade sector for the UK as **Figure 4** shows. However, as **Figure 5** demonstrates, in comparison to some of the key industries it serves, the packaging turnover (T/O) is dwarfed, showing that packaging costs are a small part of the supply chain value.

Trade balances

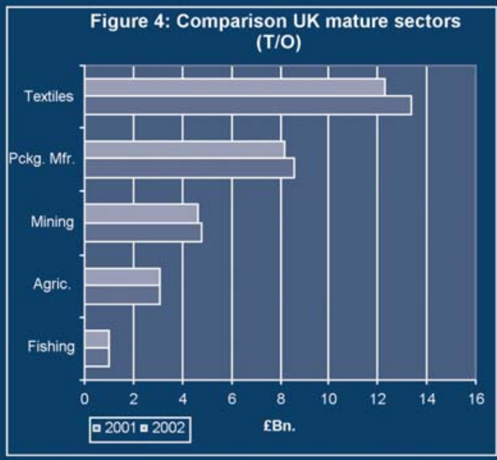
- Despite the general growth in packaged goods consumption during the same period, the UK packaging converting industry has declined due to the increase of imported packaged goods, across food to electronics, a reflection of the shift of manufacturing out of the UK.
- **Figures 6** and **7** demonstrate this trend in deteriorating trade balances, especially in the machinery sector.

Employment

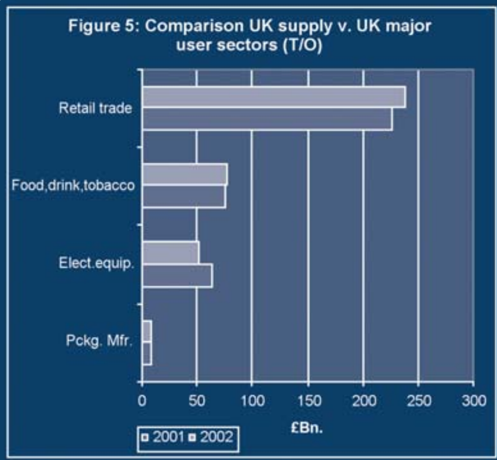
Naturally, the level of consolidation and deteriorating trade balance have had a corresponding impact on UK employment, but a positive impact on productivity levels:

		1999	**2002**	
Production units	No.	2700	2500	-7.4%
		2000	**2001**	
Employees	'000	100.1	92.8	-7.3%
Productivity (sales/employee)	£	83,902	92,479	+10.2%

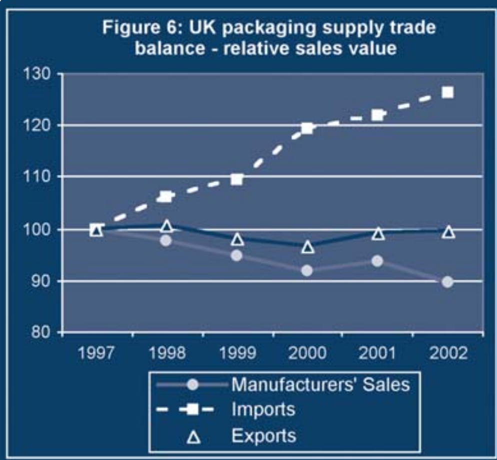
- **Figure 8** shows that the Midlands and the North account for over half of the packaging manufacturing employment.



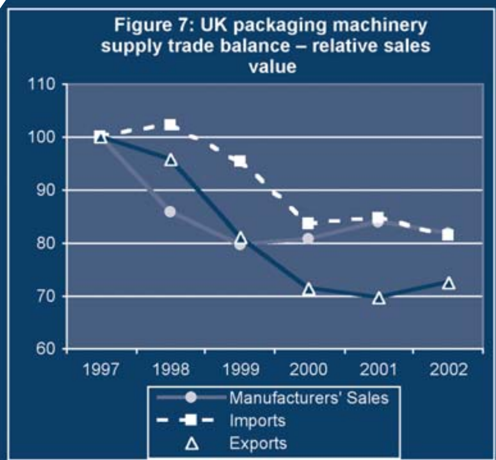
Source: ONS



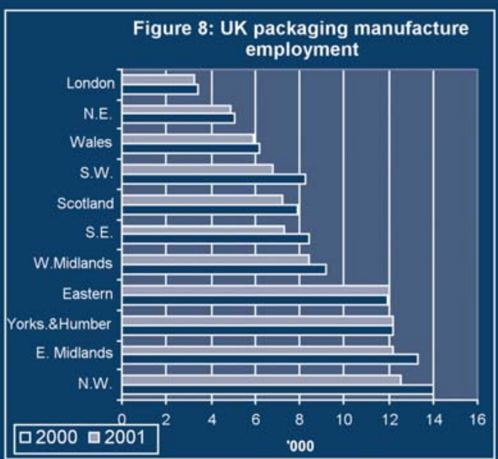
Source: ONS



Source: Landell Mills Consulting estimates based on ONS data



Source: Landell Mills Consulting estimates based on ONS data



Source: Landell Mills Consulting estimates based on ONS data

UK packaging material profiles 2002

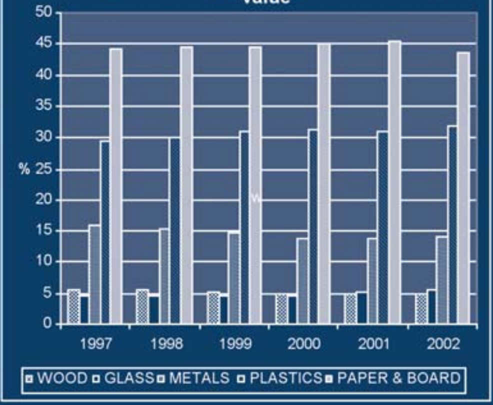
- **Figure 9** indicates the relative size of the UK market by value, based on the UK production of packaging. This shows the expected dominance of paper and plastics, but in the period 1997-2002 there was an overall decline in share for paper/board, wood and metals, with an increase for plastics and glass.
- **Figure 10** shows the impact of the trade balances on the UK market share by value, which has the effect of increasing the value of plastics relative to paper due to the former's deteriorating trade balance.

Recycling

The UK Packaging Regulations dictate that companies producing or using over 50 tpa of packaging and with a turnover >£2m (was >£5m p.a. for years 1998 and 1999) must be registered as an obligated packaging company to meet the targets for recovery and recycling of their packaging.

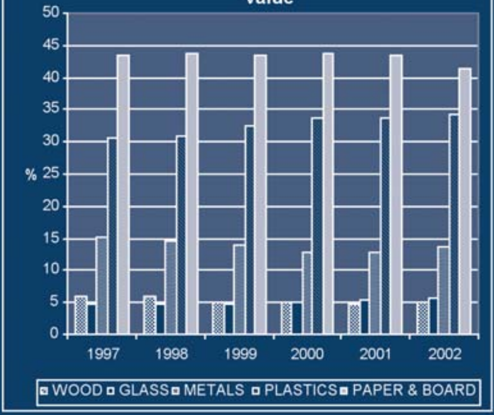
- **Figure 11** shows the estimated market by weight, together with the tonnes reported by those obligated companies.
- From this it would seem that the businesses under the de minimis level account for an average of 1.3 Mtes or c13% of the estimated total market. This seems unlikely and reflects the need for the Environment Agencies to be more diligent in their pursuit of possible free-riders in the system.
- Based on the market estimations for 2002 of the Advisory Committee on Packaging, over 40% of the raw materials for packaging manufacture, and 25% of packed goods, were satisfied by imports.
- Recycling is an important characteristic of the packaging converting industry for a number of reasons:
  1. It is an integral part of the manufacturing process, whether as process waste or as recovered packaging waste
  2. It utilises waste back into the primary processes which saves on material resources, energy and the associated emissions to air
  3. Recycling is an important element of both waste management and waste minimisation
  4. Recycling has an essential role to play in the sector's contribution to sustainable development.

Figure 9: UK packaging manufacture by value



Source: Landell Mills Consulting estimates based on ONS data

Figure 10: UK packaging net supply by value



Source: Landell Mills Consulting estimates based on ONS data

Figure 11: UK Packaging Obligations 1998 - 2008 Estimated

Source: Packaging Federation based on DEFRA data

Packaging waste in perspective

- Taken by weight, which is the usual unit of measure for waste, packaging constitutes approximately 20% of household (HH) waste, but 25% of recycling achievement in 2001/2.
- This is estimated to reduce to 18% of HH waste and 19% of recycling achievement by 2008 as HH waste is estimated to increase more than that of packaging waste.

Packaging recycling legislation

- Following the first phase of the EU Packaging and Packaging Waste Directive for the period mid-1997 to mid-2001, Brussels has adopted an agreed structure for the period to the end of 2008.
- Brussels has dictated a micro-management approach by demanding that each packaging material must have a specified recycling target, rather than leaving each Member State to establish its own levels, according to its usage patterns and waste management practices.
- It is unfortunate that the subsidiary principle was cast aside so lightly.

Figure 12: Household waste generation

Source: DEFRA

Figure 13: Relative domestic recycling rates 2000-2008

Notes:

i. MSW = Municipal solid waste (households, commercial premises, civic amenity sites, etc)

ii. HH = households only = 89% MSW

iii. HH packaging waste = 55% of the total packaging waste ending up in household waste

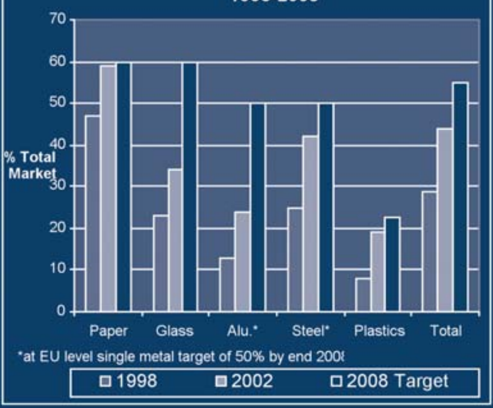
iv. Assumes 2.5% compound growth rate in MSW

v. 2008 MSW recycling based on LA target of a minimum 40% recovery (i.e. including incineration with energy) by 2005.

vi. 2008 HH waste based on min. 25% LA recycling rate by 2005

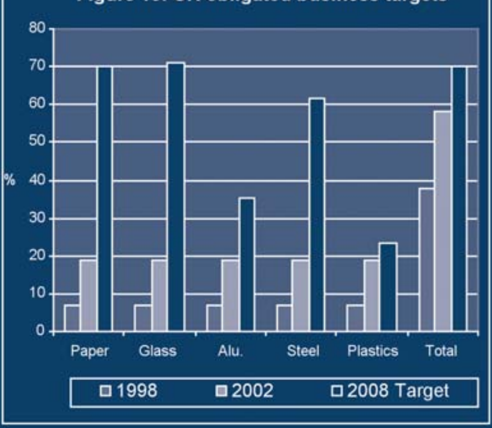
Source: DEFRA

Figure 14: UK national recycling 1998-2008



Source: DEFRA

Figure 15: UK obligated business targets



Source: DEFRA

- **Figures 14** and **15** show the impact that this change to the recycling regime will make to the different materials.
- Until the end of 2003, the Regulations and obligated business targets were set as a single minimum target for all materials.
- **Figure 11** shows that the reported business tonnage was approximately 72% of the estimated total market in 1998/99 and an average of 86% in the period 2000-2008. Hence, obligated business targets are set higher in order to reach the UK national targets.

Trade in packaging waste

- Exporting packaging waste for recycling has been growing exponentially in some materials since the introduction of the UK Packaging Regulations, i.e. 4% in 1998 to 14% in 2002.
- Whilst exports have always been a feature of trading in waste, especially paper and steel, the growth patterns shown in **Figure 16** are detrimental to the UK as it reduces both the material and financial benefits.

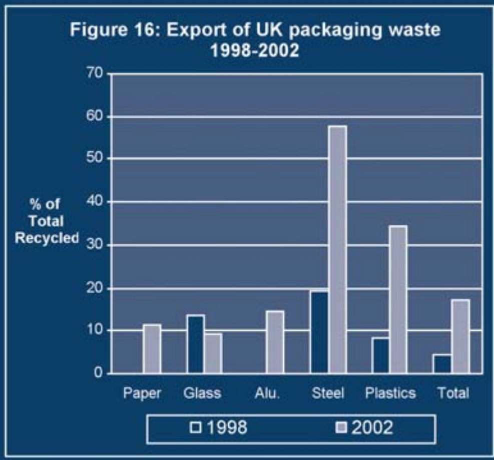


Figure 16: Export of UK packaging waste 1998-2002

Source: DEFRA

Sustainable development

- Whilst a formal sector sustainable development strategy has yet to be agreed, key players in the UK packaging market such as Rexam, Amcor and Rockware Glass have developed their own sustainable development strategy, with the latter company being awarded the Queen's Award for Enterprise for its achievements in this field.
- The PF welcomes the advent of a more holistic approach to the debate with the publication of the UK Government's *Sustainable Production and Consumption Indicators* consultation document.
- It was encouraging to see in the Government document that the only sector to demonstrate a clear decoupling activity was the UK manufacturing sector.
- Anecdotal evidence suggests that the packaging manufacturing sector has achieved a similar decoupling and data will be sought to support this assumption for the next report.
- The glass sector is the focus of one of the DTI's pilot projects on *Sustainable Production and Consumption*.

Extracts from Amcor's *Sustainability Report 2003*

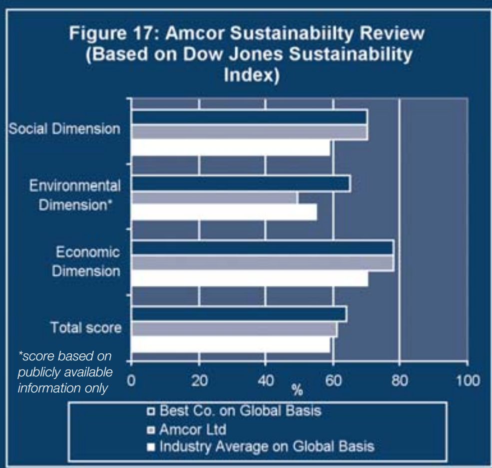


Figure 17: Amcor Sustainabiilty Review (Based on Dow Jones Sustainability Index)

The three pillars of Amcor's successful sustainable development strategy:

Economic

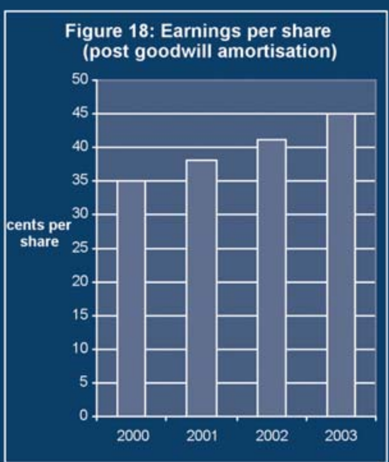


Figure 18: Earnings per share (post goodwill amortisation)

Social

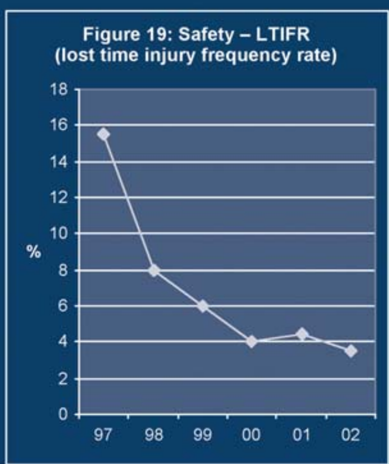


Figure 19: Safety – LTIFR (lost time injury frequency rate)

Environmental

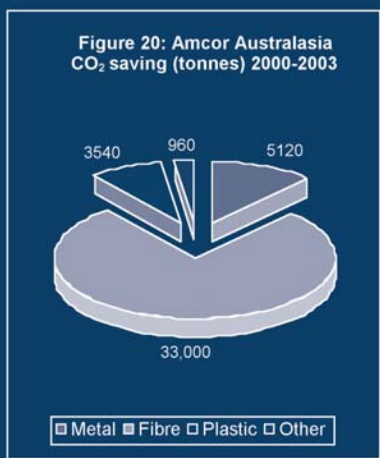
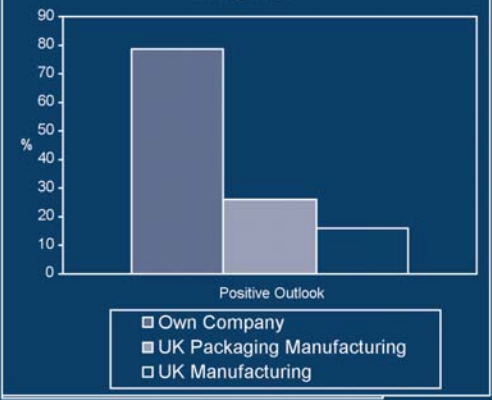


Figure 20: Amcor Australasia CO_2 saving (tonnes) 2000-2003

What about the future?

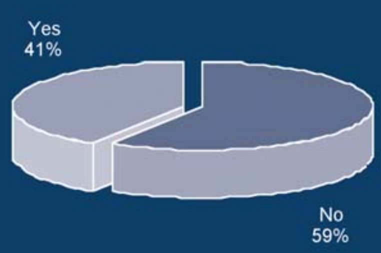
- The business confidence survey conducted during Q4 of 2003 showed that whilst the majority of respondents felt positive about their own company prospects, they were far less positive about the UK and its ability to support a strong manufacturing base (**Figure 21**).
- This was echoed by the MORI survey of 101 British captains of industry conducted in the same period.
- Confirmation that the UK is no longer seen as a favoured investment location is shown in **Figure 22**.
- When asked which countries are favoured for investment for their business, the accession states of Poland and the Czech Republic came top alongside Russia in Europe; with China, Malaysia, Thailand, Korea and India in the developing countries.
- These comments reflect those of the packaging industry's customer base, with high profile moves to these locations by Dyson, Black & Decker and Gillette.
- Despite the overall optimism for company prospects in the next two years, many with European and global operations felt that 2003 had been a worse year for most key financial performance indicators, especially margins (**Figure 23**). This concurs with findings of the EEF (Engineering Employers' Federation), who claim that three-quarters of manufacturers have had to cut profit margins to meet higher national insurance contributions in 2003.
- This undoubtedly was the cause of the negative views on investment in research and development in 2004 (**Figure 24**).

Figure 21: Business prospects – next two years?



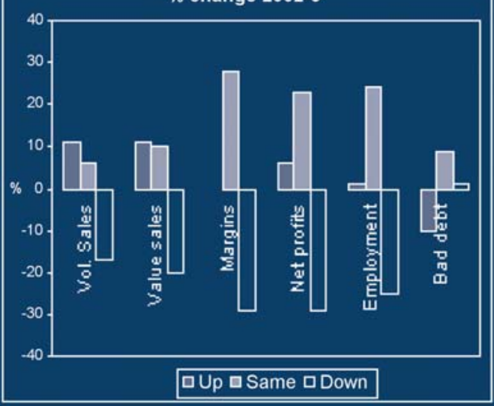
Source: Landell Mills Consulting

Figure 22: Is the UK good for investment?



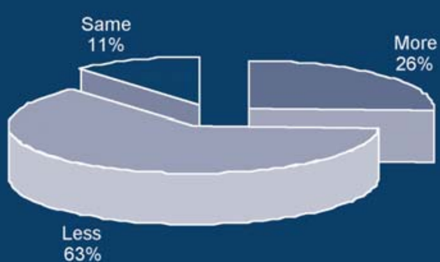
Source: Landell Mills Consulting

Figure 23: Business trends % change 2002-3



Source: Landell Mills Consulting

Figure 24: R&D investment 2004

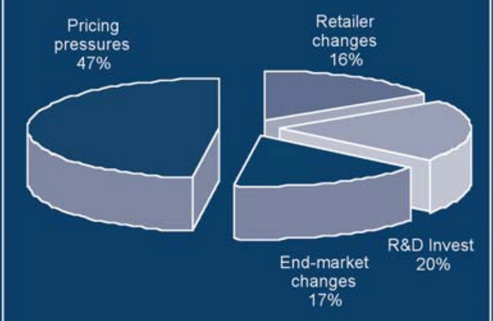


Source: Landell Mills Consulting

Future challenges

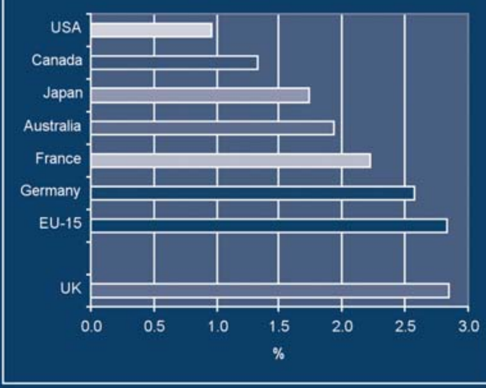
- When asked about the challenges in the next five years, those ranked as critical are shown in **Figure 25**.
- As a service industry, the dependence on customer base and associated pricing structures is fundamental to future success.
- Unfortunately, the packaging converting industry feels pricing of its services are based on a cost-plus rather than an added-value rationale.
- Only by moving from the former to the latter will there be sufficient margins to invest in R&D, and hence the innovation cycle much sought after by the UK Government and indeed by customers.
- Breaking that trend is paramount to the success of the UK packaging manufacturing industry.
- Creating the right macro-economic framework is a key role that central Government can play.
- Among concerns raised in the survey were the increasing quantity of environmental legislation and, more significantly, the manner in which the UK introduces and implements the legislation that largely emanates from Brussels.
- Most environmental legislation, not only the EU Packaging and Packaging Waste Directive, but also IPPC, climate change, aggregate tax, and fuel taxation, amongst others, affect the sector.
- Hence **Figure 26** is important in understanding the total impact of environmental taxation on the UK's macro-economic climate for investment and competitiveness.
- The final macro-economic issue is exchange rate – especially against the Euro.
- The business confidence survey showed similar results to that conducted by MORI in the same period, i.e. whilst seven in ten respondents favoured joining the EMS (Eurozone) in 1998, now less than half believe it is in the country's economic interest.

Figure 25: Major challenges next five years



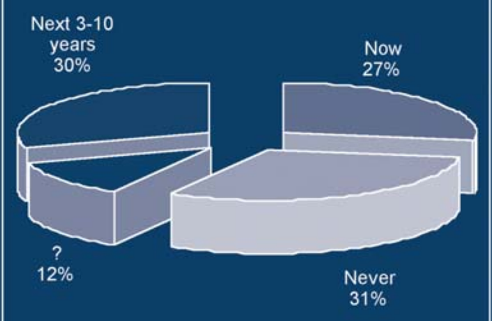
Source: Landell Mills Consulting

Figure 26: Environmental taxation as % GDP 2001



Source: OECD

Figure 27: Eurozone entry?



Source: Landell Mills Consulting

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