

The ups and downs of investing in plastic

Global investors acknowledge that one of the biggest winners from the US petrochemical resurgence has been ethylene-derived plastics and specialty chemicals.

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Jun 4, 2019 — 10.19am

After a lengthy decline from the 1990s, the US trade in plastics and chemicals has shown a sharp recovery. This turnaround stems from profound changes in the US energy complex, specifically the arrival of cheaper energy options and bountiful gas thanks to the shale revolution.

Australian ultra high net worth investors found themselves on both ends of this turnaround, benefiting from [BHP](#) and other ASX-listed multinationals' [exposure to US shale](#) but also Southeast Asia's rapid advancement in its own production of plastics and related biochemicals.

The turbulence in the global scrap plastics markets is reverberating through the US and may become a hot issue during the election.

Making organic chemicals and fertilisers requires lots of electricity and a feedstock that usually comes from oil, natural gas or so-called natural gas liquids.

Plastics production is less energy-intensive, but it is becoming similarly competitive as it is made from hydrocarbon derivatives, primarily ethylene.

As a result, US exports of plastics and specialty chemicals have risen sharply since shale gas production gained steam mid-decade, and the deficit in organic chemicals has fallen.

Net export growth has slowed since 2010 in line with global growth, but looks poised for better times once emerging markets in Latin America and elsewhere recover.

Supply and demand

The big drivers of the chemical industry in the late 1990s and early 2000s were explosive Chinese demand and the rise of the Middle East as a cheap petrochemical supplier to Europe and Asia.

Middle Eastern producers capitalised on cheap natural-gas liquid feedstock – mostly ethane, which is used to make ethylene – to capture market share.

North-east Asian producers using naphtha, an oil distillate, as feedstock benefited from being able to transport product to China cheaply. This mattered because China quadrupled its share of chemical consumption between 2000 and 2010 to scoop up 24 per cent of sales.

US producers fared badly in this environment. By 2004 the US monthly trade balance in chemicals and plastics had slumped to \$US400 million, down from \$US1.6 billion in 1997.

Its share of chemical exports to China declined from 21 per cent to 12 per cent as Japan, Korea and Taiwan grabbed market share.

Unsurprisingly, by the mid-2000s, analysts were predicting that the US petrochemicals industry would go the same way as garment producers in the country's southern states.

Swings and roundabouts

Improved US competitiveness has quickly shown up in higher sales. But for Australians, including UHNW investors who have sizeable commercial domestic interests, this “upcycling” in plastics is not so pleasing when it comes to waste management and recycling.

China’s market for recycling also boomed in the 1990s, largely because the US's trade imbalance made the process cheap and easy.

China would ship exported goods to the US's west coast and, because the US wasn't shipping goods back, tonnes of empty shipping containers sat at docks, ready to take recyclables back east to process in China’s gargantuan facilities.

But that only worked because Chinese facilities were also largely unregulated and much of the unrecyclable plastic was being dumped or stuffed into landfills.

Last year, Australians were put in a bind when China decided to not just regulate recyclers but [ban most plastic and paper scrap from being imported](#). Packaging has also become more elaborate, with paper being mixed with plastic, stickers and labels. Due to south-east Asian plastics advancing during the same period, a new category of plastics arose that became cheaper to make from scratch than to use recycled waste: The prices that recyclers get for the lowest grades of plastic made them not worth the trouble of recycling.

Hot issue

The turbulence in the global scrap plastics markets is reverberating through US towns and cities and may become a hot issue during US presidential debates, given the sizeable representation by mayors and governors across the Democratic Party ticket.

Because China will no longer buy up American scrap for top dollar, recycling has become more expensive and US municipalities have begun to abandon their recycling programmes.

Philadelphia, for instance, is reportedly burning half of all the trash residents think they're recycling and in Memphis, the airport still has bins labelled for recyclable scrap to preserve “the culture” of recycling, a spokesperson for the airport told *The New York Times*. But none of that's being recycled and it is all ending up in landfills.

Culturally a reduction in the production and consumption of low-grade, single-use plastics matters to Australians and the world at large. Global investors acknowledge that one of the biggest winners from the US petrochemical resurgence has been ethylene-derived plastics and specialty chemicals, which Australians enjoy exposure to via listed behemoths such as BHP.

As long as the development of responsible plastics technologies continues, plastics in our society have an opportunity to prove their mettle.

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