

# THE MESSAGE



## PULP STRIKES BACK

### Plastic, paper & packaging

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Who hasn't tried the paper drinking straws, with that dryness that changes the drink's taste? You can find them at Mc Donald's, or asking for an iced drink in a bar or even just at home, given that the old, coloured plastic straws are not anymore to be found on the supermarkets' shelves. It's a consequence of sustainability. Single-use plastics have been forbidden, and so we get paper plates, wooden cutleries and bamboo cotton swabs.

It's an inevitable step given that single-use plastics represent, with fishing tools, 70% of sea garbage, according to the Single-use plastics Directive that became effective the past July.

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The main single-use plastics producers are once again the abused oil companies, together with chemical companies. The first twenty companies produce over half of the single-use plastics consumed in the world. The first one is Exxon Mobile, followed by the American chemical company Dow and the Chinese Sinopec. The first producing country is China, followed by the United States and India. There's also a European company in the first twenty, and not by chance it's the biggest European oil company: Total. That same Total that promises 7GW of solar energy per year.

Looking at the main shareholders of these companies, other than the governments owners such as China and Saudi Arabia, we find international ETF investors such as Vanguard, Blackrock and State Street. Companies push green investments but then they sell products such as ETFs which have to follow closely the world markets and perhaps they can't invest as they wish. It's business.

It's not a matter of waging wars against plastic producers and those who invest in them: they have already a lot on their hands, between sale restrictions and taxes that are coming up all over Europe. We want instead to highlight those companies that have found a new impulse from this transformation.

With the digital era printed paper has declined more and more. Between 2016 and 2017 investors were wondering how the

companies involved in this business would end up, as well as recycling companies, given that recycled paper was used less and less. Then the transition towards a more sustainable world – where **the packaging business switches from plastic to paper**, wood and other sustainable materials, and where the circular economy is a fundamental pillar – brought them back to life from a seeming extinction.

In addition to sustainability, we have seen the **boom of Amazon and online commerce pushing the demand of paperboard for packaging**, as well as new lifestyles from the Millennials such as takeaway food, where paper packaging is replacing more and more the plastic one.

**As a result a business sector that for thirty years has grown around 3% per annum, in line with the world GDP, and that was seen on the verge of collapse, is growing today almost three times than in the past.**

Along the production chain, however, there's different businesses with very different margins.

Let's start with the companies producing pulp, the primary raw material to make paper. In Europe it is produced mainly in the northern countries and in the past two years its price jumped by 60%. The reason is linked to the increased costs of energy and transportation and to the pandemic that in reducing the availability of workers has also



reduced the production of pulp. The OCC (Old Corrugated Containers) which **is used to recycle cardboards has also seen its price rise by 70%**, again pushed by Covid that caused many shops to shut down thereby decreasing its supply. To keep margins at a decent level, these companies have increased the price of their products, impacting those at the end of the chain. Among the latter the producers of packages, plates, cutlery, straws etc. have seen the costs of raw materials increasing; at the same time their revenues fell because of the pandemic, as less people went to fast-food chains, made picnics or requested catering for events. As we go back to a normal situation, however, these businesses may profit from renewed demand with increased margins and profits.

There's also shadows in this paper's second life: publishing is one of the sectors most impacted by the increased costs of the

last few years, with coated paper costing 20% more than in 2020 and even 50% more for higher quality paper and card stock, so that many small publishers had to cut production to avoid raising the price of books and reducing sales. On top of that, the increased paper consumption may lead to less trees available for its production: lacking responsible re-forestation policies such as those of northern Europe, the result would simply to move from plastic pollution to a reduced ecological sustainability.

In every change the most difficult thing is to keep the balance. Often, in trying to achieve an objective, the risk is to penalise other important resources. If we could find alternatives to plastic other than just paper, such as bioplastics that are expensive today but, like any new technology, have room to improve, we may have less distasteful straws and more choice on the bookshelves.

