



Breaking the Mould - Executive Summary

The EU plastics industry plays an important role in determining the fate of our climate, health and economy. According to Planet Tracker's latest report, *Breaking the Mould*, corporates, investors, debtholders, financiers, regulators and politicians must ask themselves a crucial question: has the plastic industry's business-as-usual model become more risky than embarking on a transition towards a sustainability-driven strategy?

The European plastic industry provides an essential source of jobs to the EU27ⁱ and for years has been a steady driver of this economy. However, the industry's rapidly declining ability to compete globally suggests that the industry is primed for disruption and a transition towards a more sustainable business model is now the most viable route to avoid stranding investor assets.

"To continue competing at global level, companies and investors must commit to rapid transition towards sustainability"

The economic turnover of the EU27's plastic sector has already flatlined, with zero growth recorded from 2010 to 2019, despite an uptick in global plastics production. In fact, over the course of that decade, the EU27 global chemical market share, and plastics as a percentage of EU27 chemical sales, both declined.

China, meanwhile, grew its global chemical sales from EUR 609.5 billion to EUR 1,488.0 billion (USD 639 billion/1559 billion) and expanded its global market share from 25.8 per cent to 40.6 per cent, making it the leading chemical producer globally by some margin.

Given its declining global market share, the EU industry looks set for disruption. Transitioning to sustainable business practices,ⁱⁱ in line with a reduce and reuse economy, may be its best and only viable option.

Such a transition should be led by the companies dominating plastic production. This is a group of 87 publicly traded companies accounting for 75% of plasticⁱⁱⁱ production capacity across the EU supply chain.^{iv} The largest cluster (hub) operates within the Trilateral Chemical Region,^v which accounts for 45% of total EU27 plastic production capacity.

Just 40 banks, brokers, insurers and investment managers provide financial backing to this group of 87 publicly traded companies that account for 75 per cent of plastic production across the EU supply chain - amounting to EUR 678 billion (USD 710 billion) worth of shares - suggesting that decision-making is theoretically well-concentrated.



However, analysis reveals that, in the last five years, only nine resolutions to introduce new policies have been raised at AGMs, reflecting the current level of ambivalence towards the issue. A limited number of plastic resolutions were withdrawn prior to the annual meeting following an agreed change in management strategy.

Moreover, Planet Tracker's analysis of 990 corporate bonds and loans issued by the world's leading plastic manufacturers reveals that only three are linked to decreasing plastic pollution. A new strategy is needed to catalyse action.

Although on the face of it the Trilateral Chemical Region (spanning North Rhine Westphalia (DE), Flanders (BE) and the Netherlands) is a major part of the problem, it also has the potential to be the answer to Europe's problem.

EUR 678 billion of investor capital is at risk from the EU plastic industry's business-as-usual model

The combined economic turnover of the region is EUR 180 billion (USD 189 billion) and the chemical industry and plastics sectors employ more than 350,000 people. According to a joint declaration of intent, the region is currently working to expand its pipeline network in the hope of elevating the region's competitive edge. But unfortunately, there is still no effective sustainable strategy, putting the countries in the region at significant sovereign risk.

In addition to the competitive headwinds faced by the EU plastic industry, regulatory challenges are growing, with the EU often leading this global movement. Consumers and investors are beginning to understand the effects of physical plastic pollution and the carbon emissions associated with this industry.

Add on its plastic toxic footprint and the impact on human health, and a business-as-usual model appears a high-risk option. Now is the time to transition to more sustainability-driven business strategy.

To date there have been low levels of EU investment in new production processes and facilities, progress on a sustainable transition is still slow.

First signs of change...?

Consumers' growing awareness of the damaging effects of the plastic sector on our environment, climate and health has spurred new demand for sustainable plastics. Increasing pressure from Paris Agreement-led environmental regulations and increasing ESG demands from investors have also urged change.



Thanks to several new policies, sector commitments and growing consumer and investor demand, a small-scale transition has begun to take place.

Some financial institutions, such as Robeco^{vi} and Morgan Stanley,^{vii} are beginning to recognise the problems associated with plastic pollution.

Investors, debtholders, financiers and regulators must engage more meaningfully with the plastic production companies currently dominating the market. These include Borealis, INEOS and TotalEnergies.^{viii}

For the EU's plastic industry to remain competitive at a global level, the 87 plastics companies tracked in this paper must develop and publish their business transition strategies to move towards fully sustainable plastic production by 2025. Without the input of these industry leaders, meaningful progress is implausible and the European market will suffer as a result.

The report calls on plastics companies to:

- Determine whether the present business-as-usual strategy is financially sustainable or whether a realignment to a more circular business model based on a reduce, reuse and recycle model has become a lower risk, and longer term more profitable, option.

Equity investors, debtholders and financiers should:

- Probe executives on how they assess the impact of current headwinds (e.g. falling cost competitiveness, increasing regulation etc.) and their plan to maintain or increase returns against this backdrop.

Policymakers and regulators should:

- Push the plastic industry to change its present business model from being a major emitter of carbon dioxide, a significant source of toxins, the origination of plastic pollution and a negative influence on human health.



ABOUT PLANET TRACKER

Planet Tracker is an award-winning non-profit financial think tank aligning capital markets with planetary boundaries. Created with the vision of a financial system that is fully aligned with a net-zero, resilient, nature-positive, just economy well before 2050, Planet Tracker generates breakthrough analytics that reveal both the role of capital markets in the degradation of our ecosystem and show the opportunities of transitioning to a zero-carbon economy.

PLASTIC TRACKER

The goal of Plastics Tracker is to stem the flow of environmentally damaging plastics and related products that are creating global waste and health issues by transparently mapping capital flows and influence in the sector, starting from the production of resins through to product-use. By illuminating risks related to natural capital degradation and depletion, investors, lenders and other corporate stakeholders across the economy will be enabled to create more sustainable plastics products.

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ⁱ The EU27 countries are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

ⁱⁱ E.g. zero waste plastic production, resource-efficient production and designing plastic for reuse and recycling

ⁱⁱⁱ Plastic in this paper encompasses acrylonitrile butadiene styrene (ABS), expandable polystyrene, high density polyethylene (HDPE), low density polyethylene (LDPE), linear low-density polyethylene (LLDPE), polyethylene terephthalate (PET), polypropylene, polystyrene and polyvinyl chloride (PVC).

^{iv} The plastic supply chain in this paper is defined as the basic chemicals that make up the plastic production supply chain.

^v The Trilateral Chemical Region encompasses North Rhine Westphalia (DE), Flanders (BE) and the Netherlands.

^{vi} Robeco backs calls for a new global plastic treaty. For a fuller analysis of institutions and corporates which did and did not back the call for a global plastic treaty see Planet Tracker's 'Hiding Away'.

^{vii} Morgan Stanley's Plastic Waste Resolution Senior Researcher

^{viii} For list of the top 20 global plastic producers please see Minderoo's 'Plastic Waste Makers Index' and Planet Tracker's 'Policing the Plastic Producers'.

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