



Force majeure declarations trigger raw material shortage and send price shocks down the supply chain

Bad Homburg, 16 April 2015 – The strong demand for FIBC over the last year as evidenced by the increasing volumes of FIBC imports into the EU, is a trend echoed for many other packaging products across the plastics packaging industry and which many industry experts expect to continue.

This positive development on the demand side is under threat, however, due to a raw materials shortage. The industry is currently observing a spate of major raw material suppliers reneging on their contractual obligations towards plastics packaging manufacturers, reports the German Association for Plastics Packaging and Films “IK” and many other trade associations in the plastics processing industries. In some cases, confirmed deliveries have to be cancelled by the supplier altogether. When deliveries are made, they are coupled with significant price rises. As internal reserves deplete, this combination of steady demand with an acute and abrupt drop of supply sets the stage for near term price shocks.

The reason for the sudden shortage is a string of force majeure declarations by some of the primary polymer suppliers to the European market. This further aggravates the already stiff regional competition for raw material supplies between Europe, Asia, Africa or Central and South America, putting upward pressure on prices.

Force majeure is a standard yet restrictive clause found in supply contracts which exempts companies from fulfilling their contractual obligations due to irresistible external forces such as an act of God or act of parliament. The force majeure cases registered by raw materials producers in Europe lack detailed information and leave many open questions. The IK association points out that merely claiming the occurrence of “incidents” or “technical problems” is generally not sufficient for a force majeure claim. Such causes lie solely within the area of risk of the raw material supplier.

Irrespective of the causes for the current volatility of the raw material market, the shortages and skyrocketing prices put FIBC manufacturers and suppliers under considerable strain. Raw materials can account for 60-70% of costs for these often small and medium-sized businesses. The impact of the unexpected, upward-spiralling price is potentially existence threatening for many companies and will be felt throughout the supply chain. Plastics converters will be left little choice but to pass shortage-driven costs down the customer chain.

About EFIBCA:

Founded in 1983, the European Flexible Intermediate Bulk Container Association (EFIBCA) represents the interests of FIBC manufacturers, distributors and material suppliers towards authorities, regulatory bodies, the public and other institutions connected with the FIBC business. EFIBCA offers members a platform for exchange and cooperation on quality, safety and regulatory issues and provides guidance for the FIBC user.

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