



Developments in China's Automotive Market and Impact on Plastics

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In 2015, about 24.5 million motor vehicles were produced in China, accounting for about 27% of global vehicle production, and more than double the number produced in the second biggest market, the USA (Fig. 1). While automotive applications account for slightly less than 10% of the total global plastics market, this increases to 20% and more for reinforced and engineering plastics. Participants in the global plastics market therefore will certainly follow the Chinese market for automotive plastics with a keen interest.

Recent developments are going in two different directions. On the one hand, while the market grew at an impressive 15% per year in the period from 2005 to 2015, a forecast by consultancy McKinsey predicts only 5% growth for the period from 2015 to 2020. This may be somewhat too pessimistic – actual growth in 2016 was 9.5%. And the number of cars per capita in China is still

very low compared to Western countries (see Fig. 2). However, the assumption that the market growth will slow down is shared by most experts as GDP growth has decreased.

On the other hand, it is likely that the amount of plastics used per car produced in China will increase substantially, and also move to higher-value materials. Any quick look at the cars in a Shanghai or Beijing car park will show that Chinese buying preferences are moving upmarket towards bigger and more expensive cars. In particular, in surveys many car buyers state the intention to upgrade their vehicle when replacing their first-ever car. More expensive cars typically are not only heavier but also have a higher relative plastics content, rising up to 15% for certain European luxury cars. With the average price of a Chinese car reaching only about 25% of the average US car, there is substantial room for price increases as the average income increases.

Another driver for increased demand for automotive plastics in China is the tightened regulation. Typically, China follows European fuel efficiency and emission norms, though with some delay. These standards continue to tighten. In 2015, the Corporate Average Fuel Consumption requirement allowance was 6.9l/100 km, and there are (as yet unconfirmed) plans to reduce this to 5.0l/100 km by 2020. This will force automotive producers to look for weight savings as of course the car weight is the most important factor in determining fuel consumption – a common estimate is that a 10% reduction in vehicle weight results in 5% to 7% fuel saving. Depending on the specific application, automotive parts made from plastics typically bring weight savings in the order of 20-50%. At present, Chinese cars tend to be heavier than cars of similar size produced elsewhere, indicating a huge weight savings potential.

An additional, China-specific factor in increasing the demand for automotive plastics is the strong government support for electric vehicles (EV) and hybrids. China is already the biggest market for these vehicles, and there are numerous subsidies and other supporting measures with which the government tries to increase the attractiveness of EVs. The State Council even set up a challenging target of selling 5 million units of EVs by the year 2020, though the 2015 target of 500,000 units was already missed by approximately one third. Due to the limitations of existing battery technology and the additional weight of the batteries themselves, weight reduction can command a premium in EV, favoring plastics materials. In addition, in pure EV

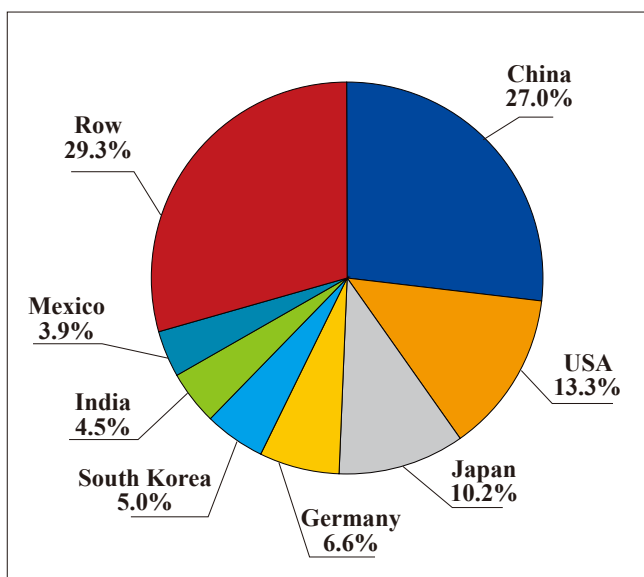


Fig. 1: Share of global motor vehicle production by country (2015)

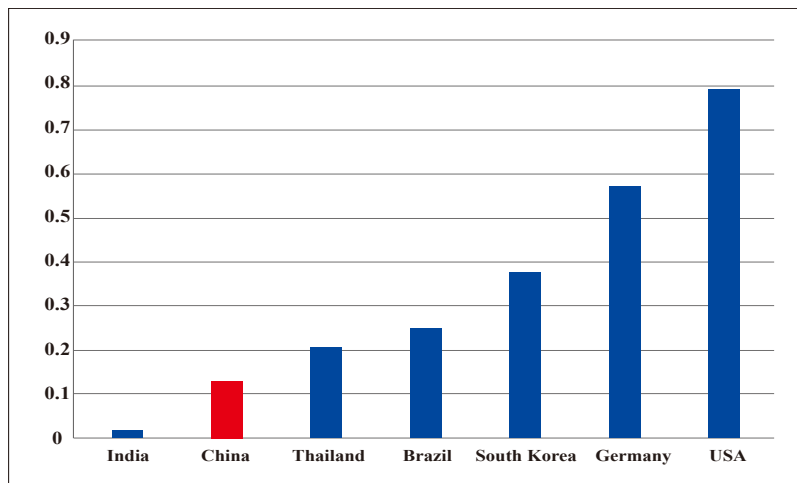


Fig. 2: Motor vehicles per capita for selected countries (2015 or latest)

there is no need for parts with extremely high temperature resistance as no fuel is burned, which opens up a larger number of parts for application of plastics and plastics composites.

As for the type of plastics used in automotive applications in China, there will likely be a shift away from polypropylene, which currently is by far the most important material. However, it is less suitable for the more demanding metal replacement applications and thus will lose some share as the application range of plastics in automotive increases. In particular, according to LANXESS, currently Chinese cars contain only about 35% of the weight of engineering plastics found in a German-produced car, hinting at a future shift in material demand towards engineering plastics. Engineering plastics will be particularly favored in the more challenging applications. Another high-growth segment is high-performance long-fiber-reinforced thermoplastic composite materials, for which in the past decade annual growth reached 30%.

The shift within the plastics segment is already reflected in the sales of some Chinese plastics compounders. A few years ago, China XD, a big Chinese compounder focusing on automotive, mainly worked with polypropylene. However, currently this share has been reduced to 17% while

different types of polyamide account for 43% of their sales as the company tries to position itself in the higher end of the automotive plastics market. China XD is also exploring the use of biomass such as straw as filler material for automotive resins, which would reduce the carbon footprint of the material – an indication how the plans of the Chinese government for a more sustainable economy affect local companies.

While many of the plastics used by the Chinese automotive industry are supplied by foreign companies, there are a number of strong Chinese plastics compounders apart from China XD. Shanghai Pret also focuses on automotive, has announced plans to almost double its capacity by 2021, and in 2015 acquired US plastics company Wellman Plastics, indicating its global ambitions. Similarly, China XD already has production in Dubai. Kingfa, by far the biggest player with 7 plants in mainland China, acquired an Indian plastics compounder, Hydro S&S, and opened production sites both in the USA and in Europe. These Chinese players thus may well become important on a global level in the future. The trend towards regional diversification is matched by a similar diversification in applications – e.g., China XD is moving into bioplastics, which is partly motivated by them seeing lower growth prospects in the Chinese automotive market.

Meanwhile, foreign companies are still

investing in expanding their local production in China as they have to compete with local players both with regard to costs and delivery times. In 2016, LyondellBasell started building its third China factory adding Dalian to Suzhou and Guangzhou, which will focus on PP compounding for automotive applications. DuPont Performance Materials launched its largest compounding plant globally in Shenzhen in summer 2016, citing optimism about applications including automotive as sources of future demand growth. And Celanese just announced that their China sales grew by more than 20% 2016, stating that this growth is related to the increased demand for electric vehicles, for which Celanese supplies plastics. The Chinese government is aware of China's dependency on foreign and imported plastics for specialty automotive applications as so far domestic companies only produce a limited range of varieties at the lower end of the quality spectrum. The current (13th) Five-Year Plan addresses this issue and targets an increase of the self-sufficiency rate for New Chemical Materials (which include automotive plastics) from 63% to 83%. If achieved, this target could mean a substantial decrease in imports from overseas.

Overall, for the next few years the Chinese market for automotive plastics still looks reasonably promising, with a growth rate of perhaps 10%, though future growth will have to come more and more from the plastics value used per car than from sheer growth of the number of vehicles. As the market is still immature – as indicated by the low number of cars per capita – it is likely that the black clouds looming over Western markets, such as the trends towards car sharing and self-driving vehicles, will not substantially affect the Chinese market in the next 5-10 years. Many Chinese still have not bought their first car yet and are eager to do so. This is fundamentally different from parts of the younger population in Western Europe and the US, where the status symbol may now be not having a car. ■