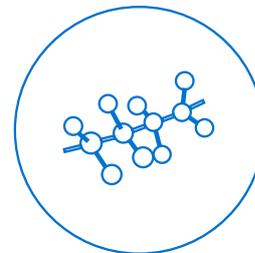


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POPS : Impact of Reshoring on North American Polyolefins Demand

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Supplement Report: Impact of Reshoring on North American Polyolefins Demand

A large proportion of the plastics fabrication industry moved out of North America in the 1980's, causing a rise in the import of plastic products such as bags and other films and a decline in domestic manufacturing jobs. The U.S. imported about 6 million tons of plastic products in 2010 compared to 1 million tons in 1992 from countries outside North America. Offshoring was driven primarily by lower cost of overseas labor; with production moving to low cost manufacturing countries, such as China, India and Vietnam. In the last 3-4 years, one of the commonly observed trends in North America manufacturing has been 'reshoring' or 'repatriation' of the manufacturing industry.

Nexant conducted a survey of the plastic fabricator industry, in collaboration with Plastics News, to understand reshoring trends and the effect on the North American market.

The survey results and further analysis suggests that the major reason for reshoring is the rising cost of overseas labor, particularly China. Wages in China have doubled in the last decade, while U.S. wages have stayed relatively flat. The availability of low cost shale gas has changed North America's cost competitiveness in manufacturing. Low cost natural gas and the diminishing price gap between the U.S. and South East Asian polyethylene prices is making North America more cost competitive for manufacturing.

As well as the tangible costs associated with manufacturing such as raw material, labor and logistics, there are several other intangible costs and issues associated with manufacturing overseas. For example, product quality and timely delivery of products can be an issue when products are manufactured overseas.

There are several key challenges to reshoring; lack of skilled labor is one of the most widely quoted challenges as it is difficult to attract young people to manufacturing jobs. Many of the jobs created by reshoring efforts will likely require a slightly more skilled workforce able to operate or perform maintenance work in automated plants. The aging workforce is another concern, which also relates to the massive talent shortage that companies are experiencing in manufacturing.

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