

Position Paper

# Packaging and Trade

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Trade which is the exchange of goods, services and capital between two or more parties either within a country or across international borders has been going since time immemorial. Trade plays a critical role in the level of prosperity in a country because it creates job opportunities and higher-earnings for many people. A comparison of developed, 'developing' and 'under-developed' countries reveals that countries with a high level of trade tend to be more prosperous than countries with limited trade opportunities.

Trade fuels competition, innovation, and economies of scale and allows individuals, companies, regions, and countries to take advantage of competitive prices and increased choice for economic growth and wealth creation in the world. Consequently, billions of people around the world have, through trade, escaped the challenges of subsistence life and poverty that was characteristic of many people throughout history. One factor that has greatly enabled trade is Packaging.

Today trade contributes significantly to the gross domestic product (GDP) of countries and is a reflection of the level of development. A century ago world trade in merchandise was less than 20% of world economic output, today it is over 50%.

Unlike the 20<sup>th</sup> century, huge quantities of machinery from Germany, toys from China, computers from Japan, fruits from Chile, T-shirts from Bangladesh, wine from New Zealand, cocoa from Ghana, pharmaceuticals from India, flowers from Kenya and tomatoes from Spain are freely traded across the globe today due to several factors including improved infrastructure, good transport, reduced trade restrictions and better technology. The value of world merchandise exports has grown from about USD 60 billion in 1948 to nearly USD 16 trillion in 2015. Merchandise exports from North America, Europe, Asia and Africa in 2015 were 14%, 37%, 26% and 2.4% respectively. Manufactured goods constituted about 70% of the total merchandise exports.

Trade involves the movement of goods from the source of production to the point of consumption. A product has little value unless it is delivered to the final customer unspoiled, undamaged and functional for its intended purpose. For this reason one can conclude that packaging - defined as the technology of enclosing or protecting products for distribution, storage, sale and consumption - has greatly facilitated the growth and transformation that has occurred in merchandise trade in the last 50 years.

Packaging is used in a wide range of industries across the food and drink, healthcare, cosmetics, and other consumer goods. Packaging is also used for handling a wide range of industrial goods and agricultural commodities. A wide range of materials are used to manufacture packaging. The types include flexible plastics, rigid plastic, flexible foil, glass, metal, paper and paperboard, wood and composite materials. Packaging is usually available as primary (the first level package for containment of the product), secondary (the second level package which holds several primary packages together) or tertiary (this groups and protects several packages for handling and shipping).

The demand for and usage of packaging has been growing rapidly and is closely linked with the performance of global trade. For example world merchandise trade which has been growing steadily from 2005 dropped in 2009 as a result of the global financial crises. Similarly global sales of packaging which has been growing since 2000 declined by 10% in 2009 due to falling demand for packaged merchandise.

The value of packaging consumed globally in 2012 was USD 772 billion. Asia's share of this demand was 36%, with North America and Western Europe accounting for 23% and 22% respectively. Packaging consumption in Eastern Europe, South and Central America and Africa were 6%, 5% and 2% respectively. It is estimated that by 2018 global demand for packaging will reach USD 974 billion and consumption in Asia will be a little over 40%. North America and Western Europe will account for 21% and 19% respectively. Packaging demand in Eastern Europe, South and Central America and Africa will be 6%, 5%, and 3% respectively.

The largest application segment of the packaging industry in global trade is the industrial, bulk and transport sector worth over USD 300 billion with a market share of 40% of total packaging. The major end-user industries of industrial packaging are chemicals, pharmaceutical, lubricants, bulk food and beverages, building and construction. Trade related factors driving demand for industrial packaging include rising consumption which stimulate industrial activities, increasing demand in the chemicals and pharmaceutical market and increased infrastructure and development work.

The global non-bulk food packaging market is valued at nearly USD 250 billion representing over 30% of the global packaging market. The food packaging market can be classified into sectors such as convenience foods, confectionery items, dairy items, fruits and vegetables, meat and sauces and dressings. The main reason for increasing preference for processed food is the shifting population dynamics towards urban centres from rural areas. Other major application segments of the global packaging industry are drinks, healthcare and cosmetics.

Packaging ensures successful national and international trade in many ways:

- Goods reach their final destination in perfect condition because the package prevents damage by providing physical protection of contents from mechanical shock, vibration, electrostatic emissions, compression and temperature variations during storage, transport and distribution.
- The package prevents spoilage by acting as a barrier that protects contents against oxygen, water vapour, dust, insects and microorganisms. Active packaging, modified atmosphere and controlled atmosphere packaging are innovative technologies that help to extend the shelf life of goods especially fresh produce.
- Labelling, marking and coding on packages help to communicate product usage, transport, storage, handling and disposal instructions. Barcodes for example can be used to speed up sales at the checkout and also for traceability.
- Packaging plays an important role in reducing the safety and security risks of

products along the supply chain. Tamper evidence features on packages for example help to reduce the risks of theft and manipulation.

- Packaging has become an effective tool to encourage the purchase of products because the unique identity of the product and brand's message are effectively communicated by the physical design of the package and graphics on the label. Packaging thus promotes fast moving consumer products by providing distinct merchandising visibility and on-shelf differentiation.
- Packages have features that provide convenience in distribution, handling, stacking, display, sale, opening, reclosing, using, dispensing, reusing, recycling, and ease of disposal to meet the changing population dynamics such as growing urban settlers, increasing number of the elderly especially in developed countries and reducing family size.
- Enables compliance with international, regional and local regulatory requirements including traceability, health, safety and environmental impact.

An effective packaging system is therefore a pre-requisite for efficient logistics and shipping of merchandise over long distances. For fast moving consumer goods in particular, the package enhances the value of the product through attractive presentation and act as a means of communication with consumers about its benefits. Packaging is today a powerful marketing tool and the brand ambassador of many consumer products.

Another impact of packaging on global trade today is the reduction in the cost of goods across the globe compared with five decades ago. For example it is estimated that while a customer would have paid USD 420 to get the SS Warrior to ship a tonne of goods across the Atlantic in 1954, today you might pay about USD 50. This is the result of improved packaging and the introduction of containers which has led to reduction in theft, reduction in labour cost, reduction in insurance cost, reduction in damage and spoilage, reduction in the delivery time, improved inventory management, improved supply chain efficiency and increased competition.

Packaging is thus the bridge that connects countries, markets, businesses and people, allowing them to buy and sell goods on a scale that was not possible in the past. Thanks to packaging, goods from all parts of the globe are readily available in local shops and markets in the remotest parts of countries and consumers can access them without restriction.

Packaging comes in different forms, shapes and material to suit the product being packaged either for storage, transport, distribution, retail or consumer use. Recent changes in lifestyles, consumption patterns, population growth, urbanization, income level and demography have resulted in the design and development of innovative packaging to meet different needs of people in different parts of the world.

Increasing global concerns on the impact of packaging waste on the environment has resulted in the introduction of a number of international trade regulations on packaging. The EU, US, Japan and other developed countries have strict packaging regulatory requirements such as the Directive 94/62/EC on packaging and packaging waste. These regulations are aimed at ensuring the reduction, reuse or recycling of packaging used for merchandise. A number of technical regulations and standards, including packaging, marking and labelling requirements have also been introduced to protect human, animal and plant life or health.

Unfortunately some of these requirements have become technical barriers to international trade especially for developing countries and has affected their capability to export manufactured goods. Building the capacity of countries to harness the advantages of better packaging will contribute to changing this trend and help companies in developing countries to increase their share of exports of high value manufactured goods.

Packaging has significant economic value and influences the Gross Domestic Product (GDP) of countries because it offers opportunities for promoting international trade. Lower GDP is often associated with countries where the packaging industry is not well developed because in the absence of proper packaging manufacturers are unable to add value and ship products from source through the supply chain to markets. A product in a poorly designed package cannot withstand the hazards of the transit journey, maximise shelf impact and positively influence the consumer purchase decision. The product becomes uncompetitive in the market and affects contribution to the GDP of the country.

Clearly packaging facilitates trade by making the movement of goods between countries more effective and efficient to meet the needs of rapidly growing world populations everywhere. This has benefitted consumers by making goods available, created choice, kept costs down, boosted economies and created employment. This is in line with the primary goal of the World Packaging Organization - "Better Quality of Life through Better Packaging for More People".