

Executive Summary

- *Only small gains were made in metal packaging globally in 2010 and segment growth was likely diminished by a still-weak economy in 2011.*
- *Much of the food can growth has been in the pet food market and the conversion from pouches back to cans.*
- *BPA continues to be a difficult issue in metal packaging and could lead to the outlawing of can coatings containing the chemical.*
- *Acquisitions by Reynolds Group, Silgan, Ball, and others are changing the metal packaging landscape.*
- *Beverage can production continues to dominate metal packaging. While U.S. production is down, the rest of the world is growing rapidly in beverage can production.*

In 2011, the U.S economy remained in the doldrums, with little growth in gross domestic product (GDP), unacceptably high unemployment, a depressed housing market and low consumer confidence. Moreover, a dramatic turnaround is not expected, and the tepid “recovery” will continue into 2012. As bad as the U.S. economy is, one only has to look across the Atlantic to realize that it could be worse.

The conditions described above do not auger well for metal packaging in 2012. All three sectors (food, beverage, and general line) declined during the first half of 2011, and it is very possible that full-year results will show the industry giving back the small gains (0.5%) made in 2010.

At first glance, it seems that food cans had a good year in 2010 with total shipments reaching 28.4 billion, a gain of 158 million units, or 0.6%. However, a closer look shows that all the 2010 gains were in pet food cans. While there is no conclusive evidence, we believe that the growth in pet food cans was a rejection of pet food in flexible pouches, as consumers did the math and realized that metal cans were a better buy in these lean times. During the first half of 2011, shipments of food cans were down due to the forward buying of cans, as prices increased at the beginning of the year. Even as inventories were restocked during the second half of 2011 and into 2012, no increase in demand is expected, due to weakness in fruit and vegetable packing.

Beverage can shipments rose modestly (0.2%) in 2010 on the strength of increased beer can volume. Brewers of craft beers, one of the few growth areas, now seem more willing to package their products in aluminum cans rather than glass bottles. Whether this trend will continue is still uncertain. Soft drink cans, on the other hand, continued to decline as carbonated soft

drink (CSD) volume continued its multiyear slide and PET packaging picked up a larger share of the market. One of the few bright spots for canned soft drinks is canned energy drinks, a segment that continued its strong growth despite a weak economy.

In 2010, general packaging, the smallest industry segment representing about 3.5% of total can shipments, rebounded after a down year in 2009. Aerosols (both tinplate and aluminum), which account for more than three-quarters of general packaging, grew 7.75% in 2010. However, 2011 shipments of tinplate aerosol cans are expected to be flat or to decline slightly, with no significant improvement anticipated in 2012.

The BPA Issue

While most forecasts are little more than educated guesses about the future, we can say with complete assurance that the bisphenol A (BPA) debate will continue in 2012 and very likely into subsequent years. As a result, canmakers, packers and coatings producers are in a state of limbo — dependent on the whims of grandstanding politicians and advocacy groups — regarding the future of BPA in food and beverage can linings. Briefly, high-performance epoxy phenolic coatings were introduced during the 1960s as a replacement for oleoresinous C-enamels. About 80% of the food and beverage can coatings in use today worldwide employ the epoxies (roughly 3 microns in thickness), which contain trace amounts (less than 0.1%) of BPA. The coatings provide superior corrosion resistance, particularly with highly acidic food, at a lower price than C-enamels. While some migration of the coatings into the contents of the can does occur (25-200 parts per billion), the amount is well below the tolerable intake established by regulators in North