

SOUTH AFRICAN PULP AND PAPER INDUSTRY

Summary findings on 2017 production, import and export statistics

Sector contribution to GDP	2015	2016	2017
Forestry-to-paper contribution to SA GDP	0.49%	0.44%	0.48%
Forestry-paper contribution to manufacturing GDP	4.21%	3.64%	4.06%
Forestry-paper contribution to agricultural GDP	23.3%	20.1%	21.0%

Paper production and consumption	Paper Production	Paper Imports	Paper Exports	Paper Consumption
Newsprint	180 727	3 746	36 980	147 493
Printing/writing	342 457	487 581	136 243	693 796
Corrugated materials/containerboard	1 208 571	141 038	326 947	1 022 661
Other wrapping papers	46 950			46 950
Tissue	228 991	35 879	36 282	228 588
Other paper	138 186	47 227	104 005	81 408
Board	34 178			34 178
Total	2 180 061	715 471	640 456	2 255 075

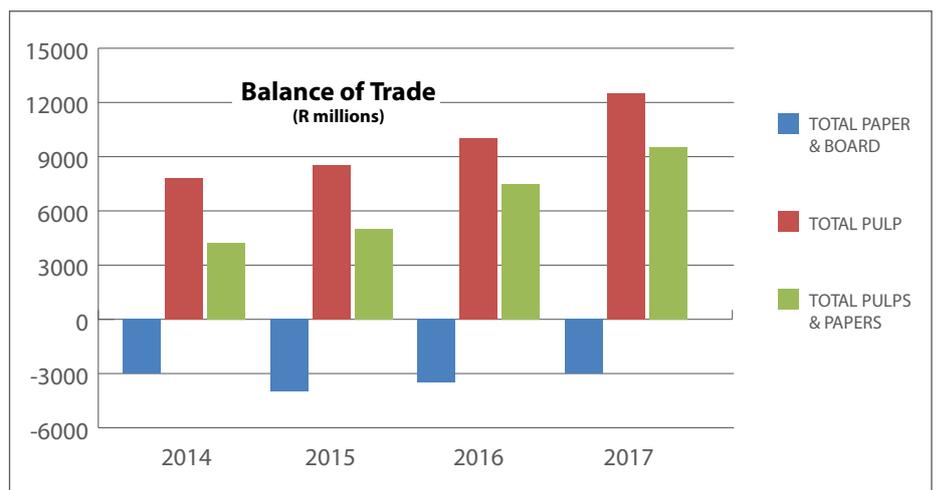


Photo: Mondi

Pulp and the balance of trade in general

Pulp production is down from 2016 levels, with local demand declining the most. Exports continued to rise while imports declined, in line with the general decline in SA paper production. Pulp continues to add positively and substantially to the country's trade balance. There is also a longer running trend of rising packaging and tissue grades, both becoming increasingly positive.

There is hope that the tissue sector will see increased exports as opposed to only increased internal competition. The declining trend of P&W grades will most probably continue, in spite of the slight uptick earlier in 2017, albeit from a fairly negative trade balance level.



Direct contribution to balance of trade
R9 billion

Printing and writing

The last 10 years have seen the South African industry closing the production of a number of printing and writing (P&W) paper grades. Namely, super calendered papers, coated papers, and late in 2017, half of SA newsprint capacity was closed.

Looking forward, three major trends will continue to impact P&W grades in SA:

1. Continued loss of competitiveness (against newer very large, very fast machines) in a consolidating global industry.
2. The market for these grades is declining due to digitised information storage and digital transactions and the consumption of news in electronic format.
3. The static GDP growth of SA means lower economies of scale in an industry that needs high utilisation rates to reinvest and keep in pace with global competition.

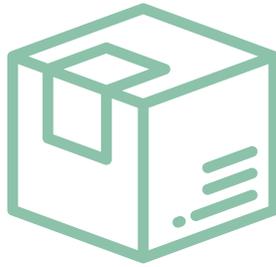
With newsprint and copy paper (uncoated woodfree or bond) grades, there have been further slides in production and consumption. Imports and exports of both grades are similarly lower.

UWF exports could sustain local production but faced with the global declines and excess capacity, this is a highly competitive market.

The last remaining newsprint paper mill in SA should show increased utilisation rates going forward.

Nevertheless the kilogram per person (kg/pp) consumption of P&W grades continues to show a declining trend. Once again, this is probably the combination of electronic media, electronic printing in businesses and the drive to remove costs.

Fundamentally, the issues around SA internal costs (utilities, resources and economies of scale) and external pressures (distance to market, demand declines, oversupply trends) remain a challenge. Taking a longer view, the P&W sub-sector in SA is in decline, requiring a substantial, integrated and co-ordinated effort to redirect the raw materials, fixed assets and labour into more sustainable production. For example, the closure of the newsprint machine, which used 40% recycled newsprint/magazines, implies that the 40,000 tonnes of recycled fibre, which was used here, will now be exported, instead of being benefited in SA.



Packaging paper

Packaging grade production remains strong in the face of weak GDP growth. Declines in production and consumption are most probably attributable to destocking in the retail channel and a weak agricultural sector.

Local apparent consumption is largely static although per capita and GDP/kg are both weaker. With exported packaging material having declined, imported packaging was effectively static; the industry appears to have performed fairly well in the face of uncontrollable factors.

Looking forward, the same factors (gradual GDP recovery and a progressively but slow end to the drought) can be expected to return the sector to growth. The last few years of increases in recycling rates should continue. The past 10 years has seen the industry refocus itself on where it is internationally competitive.

Looking forward, with increasing pulp exports, increasing recycling rates, as well as increased availability of other recycled paper grades (namely newsprint), again there is a need for a coordinated and integrated industrial review for new innovative value-add products that are globally competitive, sustainable and able to create jobs, albeit fairly highly skilled jobs.

Consumption

P&W grade tonnes consumed and consumption per person continue to show a long slow decline. While there will be an economic pressure aspect to this, there is also the global paper electronics substitution that is continuing to develop.

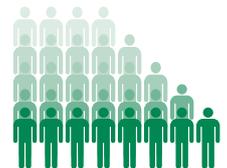
The only new trend here are printed books are now in favour again, over electronic books.

Local packaging grades are maintaining well in the face of GDP, drought, earnings and job pressures. There is some evidence to suggest a longer run increase in packaging material leaving SA, as part SA value added export drive in other non-agricultural sectors.



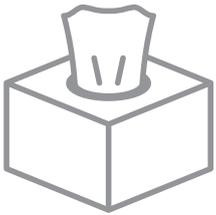
Jobs

Jobs in the pulp and paper sector overall appear to have risen - in contrast to the observed declines in production. Forestry related jobs (distinct from paper/pulp) have declined, matching the reduction in raw material off take - although logging specifically has remains mostly static.



The recycling industry continues to show an increasing trend. According to Statistics SA, there has been a substantial increase of jobs in the paper recycling sector from 2016 to 2017, which has been buoyed by robust demand from paper mills. The increased recovery rates over the past few years seem to validate these higher job rates with increased collections. What is however problematic is the falling efficiencies (per person productivity) when comparing tonnes to jobs - where all sub-sectors, except recycling, are showing declining productivity, which does not bode well for the future of job trends going forward.

It is through partnerships with the likes of the Fibre Processing and Manufacturing (FP&M) SETA that the sector has trained over 6,000 recycling collectors and entrepreneurs since 2010. We have also worked with the FP&M SETA and the Quality Council for Trades and Occupations to formalise the qualifications that these entrepreneurs receive.



Tissue

Tissue grades, similar to packaging grades, tend to be very GDP-sensitive. Production was effectively unchanged, with exports matching imports, although exports are rising more consistently than relatively volatile import volumes.

The longer run view remains that SA growth in this market is still waning with jobs and earnings per household both performing badly. Hopefully with the drive for GDP growth, demand growth will follow.

Looking forward, continued reports of new capacity coming on line will mean greater local competition or greater exports; most likely both. Either way, more virgin pulp will be required along with more high-grade recovered fibre.

We can expect the smaller players to come under price pressure with the new capacities coming on line. It should be noted that the current market (without the new capacity) is already somewhat oversupplied, with consumer demand being somewhat less than production. The new capacity will lead to change, not necessarily growth, unless it is mostly export focused. This segment seems to be very sensitive to the economic wellbeing of consumers and, hopefully, we will see a return to economic growth in the not too distant future.



Recovery and recycling

In 2017 the paper recycling industry along with conscientious consumers and thousands of collectors kept 1,3 million tonnes of paper and paper, boxes and liquid packaging out of landfill. This tonnage represents 70% of the 1,8 million tonnes of paper available for recovery, which excludes books and archived records, and unrecyclable paper like toilet tissue. In 2015, the association set a target of 70% by the year 2020, and this has been achieved three years early.

While the recovery rate has increased, there has been a drop in local consumption particularly in printing and writing grades. This has resulted in a slight drop in the actual tonnage from 1,4 million tonnes to 1,2 million tonnes. This decline is however in line with international trends. The average annual per person consumption in South Africa has dropped from around 50kg in 2011 to close to 40kg in 2017. Some of this reduction is attributable to cost saving, electronic media substitution and the country's weak economic growth.

Recovered paper fibre is showing mixed demand with the changes in the various recycling rates reflecting this. Some of these changes include what appears to be waste fibre stockpiling, for the export market.

With much of the country's recovered material used in tissue and packaging and static industry growth, the changes in the recovery rates have been largely static.

As GDP recovers, competition for collections will become increasingly evident once again. With the longer term trend of a tightening paper recovery market, gradually increasing recovery rates, higher competition and some consolidation, it is expected that there will be little room for economic fat in this sector.

The major opportunity in this sector is the rapid and large build-up of recovered newsprint and magazine grades of papers in SA and thus a concerted effort needs to be made to find a globally competitive value added use for this fibre, rather than exporting it.

The sector has the capacity to process all the waste paper it collects and less than 5% was exported in 2017. As a result, South Africa is less vulnerable to the vagaries of the international waste paper market and although China's moratorium on waste paper imports did have some impact, it was negligible compared with the likes of that in the USA and the UK.

As an industry, we embark on numerous awareness drives, promoting better separation-at-source to reduce the contamination of waste paper and provide a better quality fibre for paper manufacturers.

Recovery of recyclable paper	Paper Recovered in South Africa	Recovered Paper Imports	Recovered Paper Exports	Consumption of Recycled Paper in SA	Recovery of recyclable paper	Tonnes
Newspapers	146 509	7 656	69 143	85 023	Paper consumption	2 255 075
Magazines	30 955			30 955	Less paper exported in agricultural products	- 43 850
Corrugated, solid cases, kraft papers	850 992	24 415	44 593	830 815	Less paper unsuitable for recovery	- 397 546
Office, graphic papers	139 421	383	2 376	137 429	Recoverable paper	1 813 680
Mixed and other papers	114 242	25 440	5 987	133 694		
Total	1 282 120	57 895	122 098	1 217 916		