PAPER MANUFACTURERS ASSOCIATION OF SOUTH AFRICA
2010 REPORT

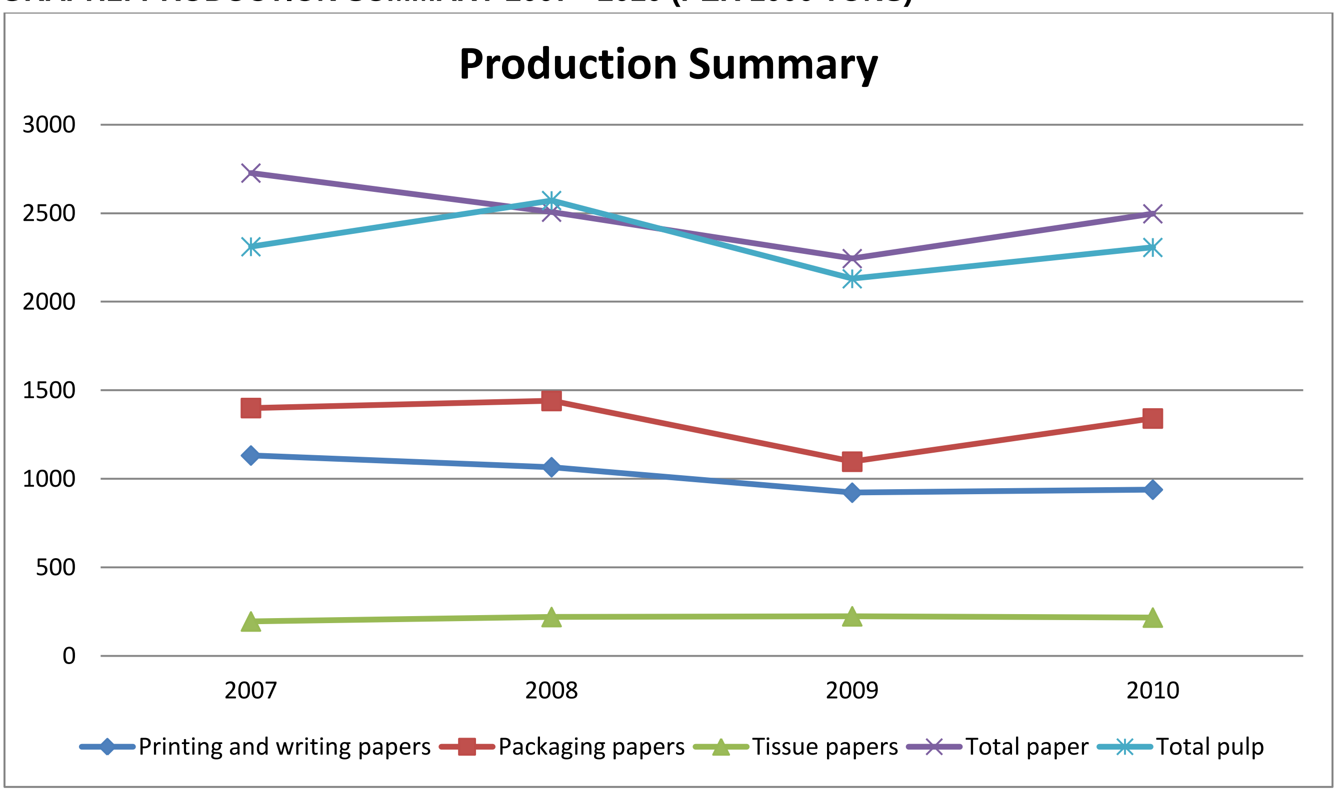



Overall summary: January– December 2010

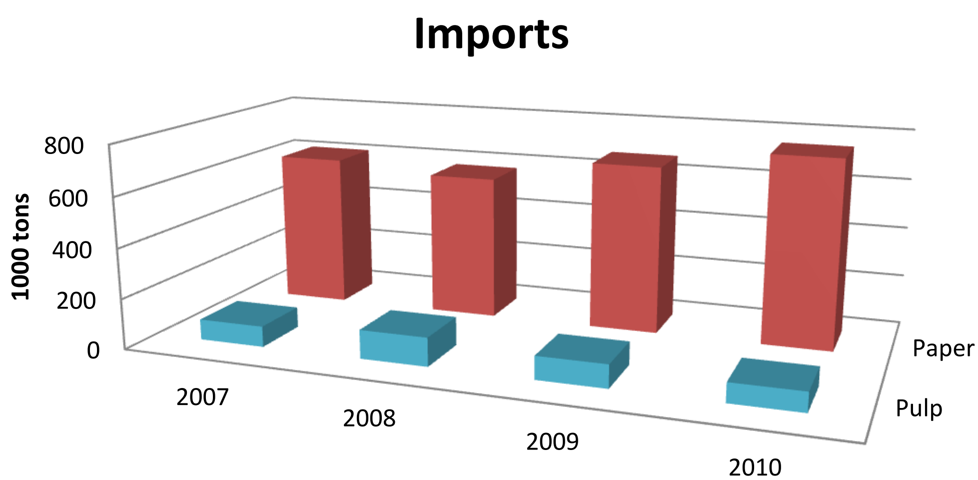
The industry is showing steady recovery since the 2008 recession and the resulting decline in pulp and paper demand. This is driven mostly by packaging and tissue grades. With the exception of fluting and kraft papers, **tonnages across all grades have recovered from their 2008/09 lows**. The **Rand value of production is significantly higher** due to higher global prices, which appear to be driven by the global trend of rising resource prices, labour, energy and water costs.

The **imports of paper and packaging grades (except for tissue products) continue to rise strongly showing a 28%** increase since 2006 (refer to Graph 2c), outstripping domestic production (refer to Total Paper in Graph 1) which has declined by about 4%. This is partly attributable to the relatively strong Rand of recent years. The lack of any trade tariffs also make South Africa an easy target for dumping, which even when not in great quantities, disrupts local markets with the introduction of unsustainable pricing points.

GRAPH1: PRODUCTION SUMMARY 2007 - 2010 (PER 1000 TONS)

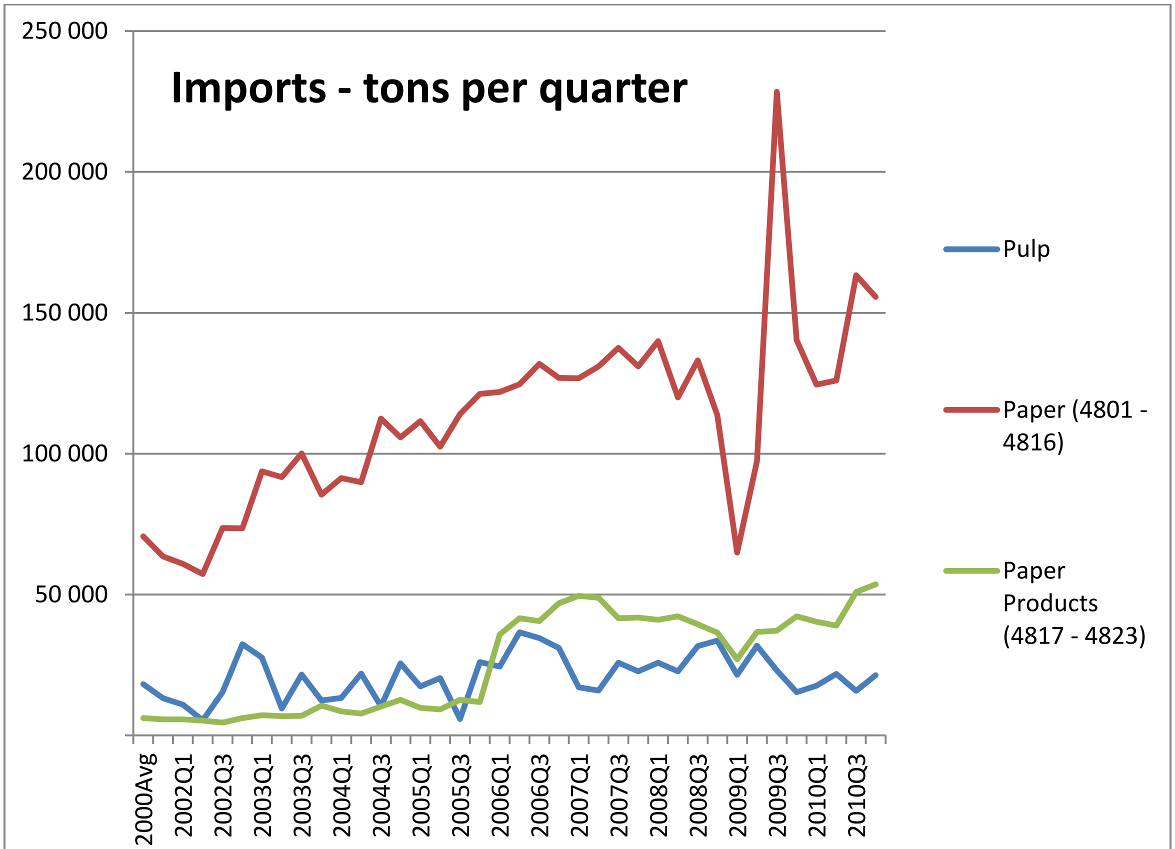


GRAPH 2a: IMPORTS 2007 – 2010 (PER 1000 TONS)

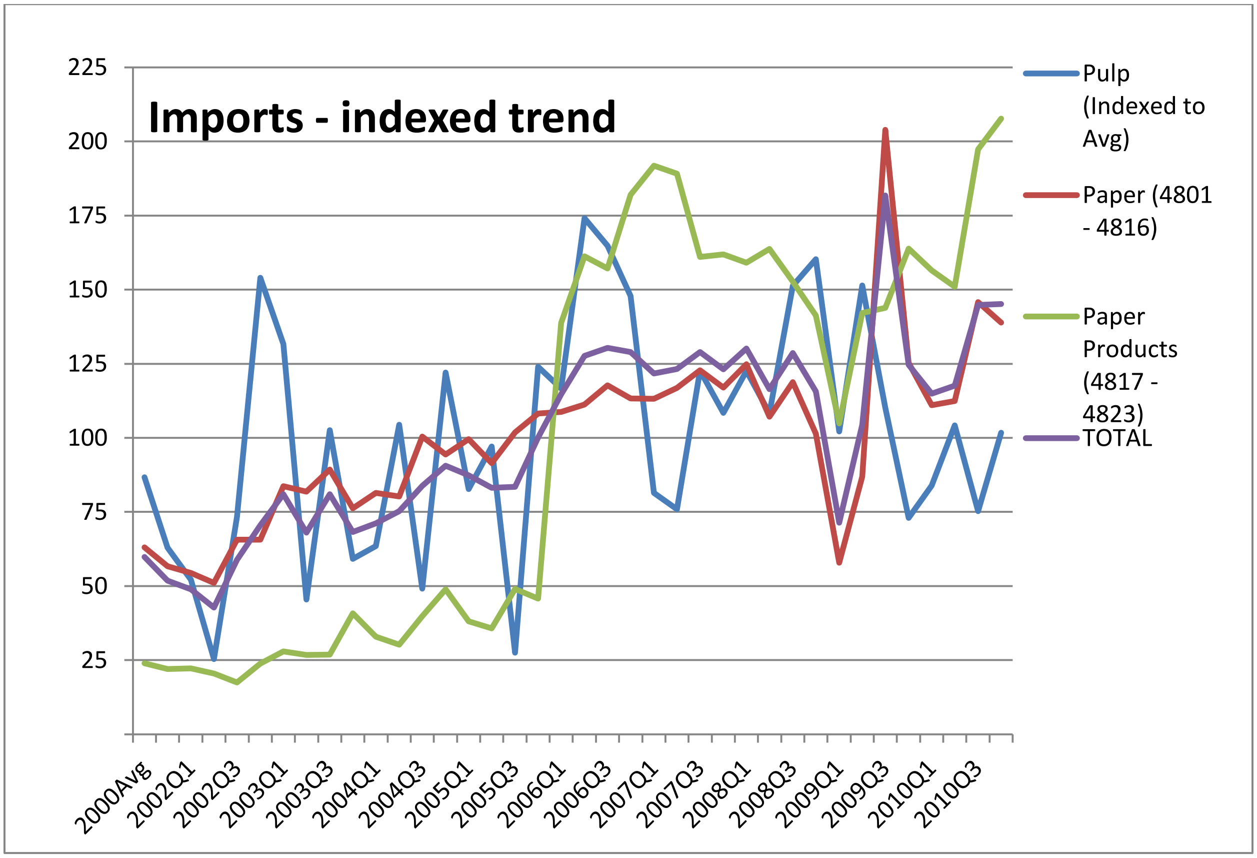


	2007	2008	2009	2010
Pulp	82	114	92	77
Paper	615	579	674	753

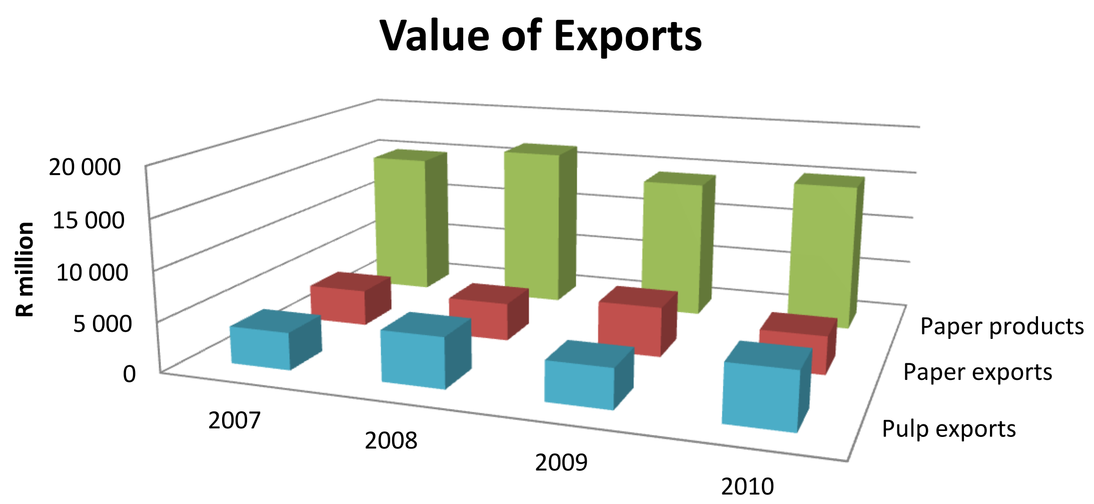
GRAPH 2b: IMPORTS 2002 – 2010 (TONS PER QUARTER)



GRAPH 2c: IMPORTS 2000 – 2010 (INDEXED TREND)



GRAPH 3: VALUE OF EXPORTS



	2007	2008	2009	2010
Pulp exports	3 747	5 054	3 942	5 604
Paper exports	3 684	3 859	5 047	3 839
Paper products	14 911	16 533	14 237	15 085

Production arena

- **Pulp production** remains depressed (under 2008 levels) matching domestic paper production, however there are significant increases in dissolving pulp.
- **Local printing and writing paper production** is still off (-12%) levels from 3 years ago.
- **Packaging papers** have recovered quickly recovered previous losses of the past 3 years, showing a 2% improvement. The bounce-back is stronger than all other finished goods grades. A reasonable proportion of this improvement could be attributable to restocking throughout the value chain.
- **Pulp exports** are rising, driven by chemical pulp demand.
- **Uncoated papers** remain under pressure at around 30% below the 2007 highs. Conversely this grade shows strong import growth.
- **Coated papers** are recovering from the past years' slump, performing better than their uncoated counterparts.
- **Newsprint and telephone directory paper** production figures are largely static.
- **Tissue papers** have been fairly stable over this period with little recessionary declines or subsequent recovery apparent. The growing middle class, increasing tissue use and market penetration could be a contributing factor.

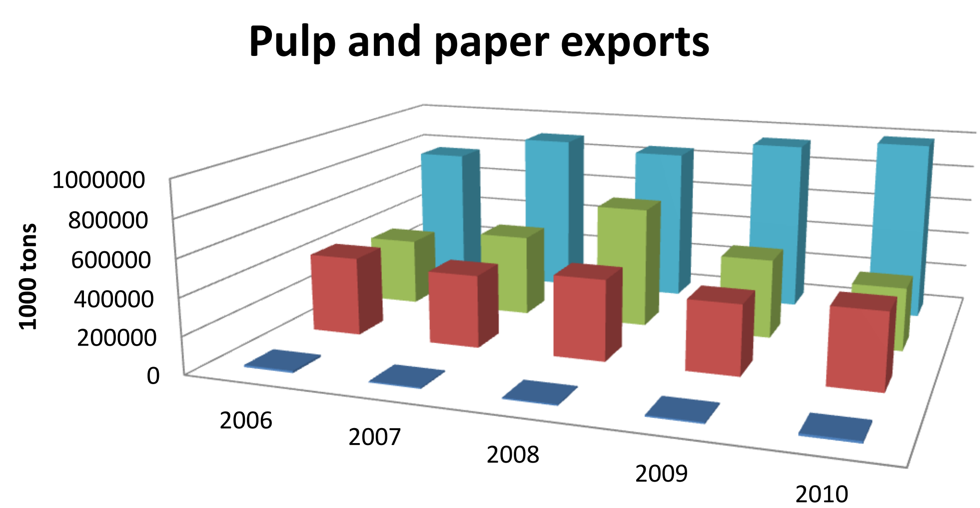
The 2010 quarterly figures show similar trends, with tissue and packaging papers performing well. Fluting has shown the strongest development; continuing to track domestic retail recovery. The use of Bagasse pulps appears under pressure, presumably from alternate uses within the value chains involved and declines in sugar harvests.

(Refer to Addenda containing detailed data table)

Export markets

Pulp exports are strong and rising; consistent with the global trend of pulp demand. The export of coated papers and newsprint grades are showing relative growth, compared to 2006. However uncoated grades (6 times exports of the sum of other printing and writing grades in 2006) have plummeted 30% over the same period, without signs of export recovery. Machine closures account for some of this. Liner board and fluting exports are 20% and 2% down respectively, possibly reflecting increasing demand locally.) 'Other kraft papers' are showing huge growth of over 4 times 2006 volumes into the export market. Tissue papers are showing high variability off a relatively small base.

GRAPH 4: PULP AND PAPER EXPORTS



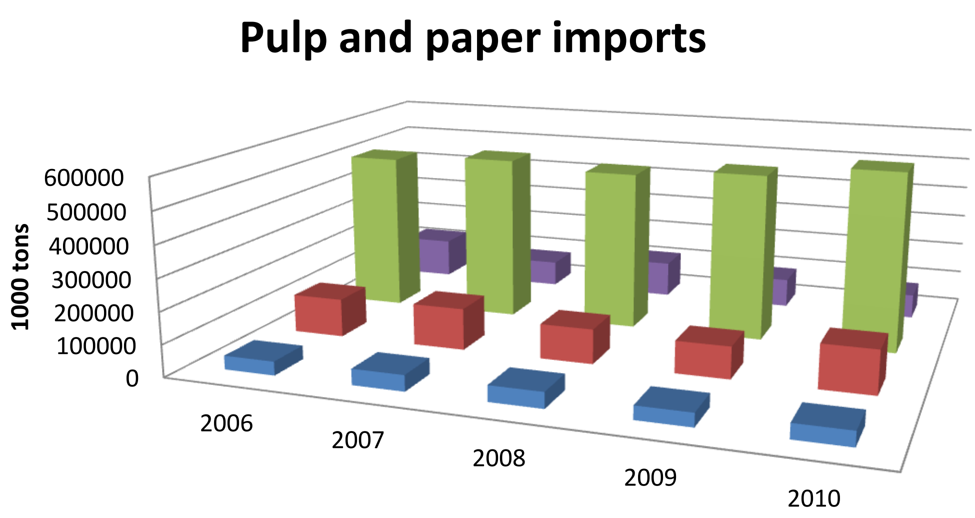
	2006	2007	2008	2009	2010
Tissue papers	11105	6 562	6 796	7 953	11 733
Packaging papers	427258	394 154	437 264	376 786	410 503
Printing & writing papers	366214	445 284	658 044	433 098	342 485
Pulp	761266	889 764	848 814	938 401	984 604

Imports

The import of most grades is rising with paper grades recovering from the 2008-2009 drop and continuing on a good growth path. While there have been dramatic jumps in the past, calculating an average growth estimate is difficult. The following can thus be concluded:

- **Uncoated grade imports** are 20% higher (exports down 30%, production off 10%) since 2006.
- **Coated papers** showing some volatility are up by 7% (exports strong at 89% with production off 12%).
- **Packaging grades**, fluting and "other" kraft papers imports are 52% and 57% up respectively since 2006. With the closure of the only super calendar (SC) grade machine and no lightweight coated paper (LWC) production in South Africa, these grades are showing strong rises in imports.
- **Tissue grades**, although variable, show little major change since 2006.
- **Pulp imports**, except specialised grades, are declining.

GRAPH 5: PULP AND PAPER IMPORTS



	2006	2007	2008	2009	2010
Tissue papers	43136	50 047	49 851	42 065	45 997
Packaging papers	121827	131 610	109 347	101 099	137 890
Printing & writing papers	505331	526 384	506 796	531 036	569 456
Pulp	126747	81 584	113 936	91 743	76 700

While different grades show varying trends, there is concern around uncoated woodfree grades for which production has declined, exports declined and imports are racing ahead. Previously, this grade accounted for a large proportion of domestic production and exports. Historically SC grade showed the same trend, until machines where shut. The rising in imports of some packaging grades has also put pressure on domestic production, with evidence in the industry of temporary low price level imports, leading to production cuts (commercial shut-downs) in the recent past.

It appears that there is a lack of strategic intent (or strategic support / incentives) to adding value to raw materials, as we are importing more value added goods (papers) and exporting more upstream materials (pulps). Most paper grade imports are rising. One can only conclude that the removal of tariffs along with a stronger Rand is shifting industry focus towards immediate benefits off a purely practical need for profitability.

Recycling

Recycling rates (with strong increases in input costs as incentive) have maintained previous levels, although lower tonnages in the recession were noted. These are returning to pre-recession levels. While some changes in the mix have occurred – driven by stock levels changes throughout the value chain – the trend towards sustained gradual recycling efficiency appears to be continuing once again. There is good development for 'brown' grades.

Raw Materials

The use of softwood timber/pulps remains depressed, with only softwood chips showing a slight rise in demand from the recession dip in 2008. The strong move towards bleached softwood usages is taking the lead over unbleached softwood pulps which is a good sign for increased value adding in the industry. Hardwood has recovered strongly, with round logs driving the climb; Wattle ("Other hardwoods") more so than Eucalyptus of late.

Pulp imports, although small, are rising once again. Recovered fibres are recovering, browns far stronger than whites, consistent with PRASA positive leading indicators for effective recycling collection.

(Refer to Addenda containing detailed data table)

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DATA TABLES

Table 2.1a: Pulp and Paper Production

Pulp and Paper Production Tons ('000)	2005 YTD	2006 YTD	2007 YTD	2008 YTD	2009 YTD	2010 YTD	2011 YTD
PAPER AND BOARD							
PRINTING AND WRITING PAPERS	**925**	**1050**	**1132**	**1066**	**922**	**939**	**0**
Uncoated Paper	468	635	709	654	552	570	0
Coated Paper	73	73	73	65	48	56	0
Newsprint and Telephone Directory Paper	344	343	349	347	323	313	0
SC Mechanical and LWC paper	39	0	0	0	0	0	0
PACKAGING PAPERS	**1365**	**1369**	**1400**	**1440**	**1097**	**1341**	**0**
Liner Board	824	824	835	834	719	725	0
Fluting	308	325	347	377	157	388	0
Kraft Wrapping & Packaging	88	80	87	87	89	97	0
Folding boxboard	105	102	96	110	93	104	0
Other Wrapping papers	0	0	0	0	0	0	0
Other Kraft paperboard and fibreboard	41	38	35	32	40	28	0
TISSUE PAPER	**193**	**191**	**195**	**220**	**224**	**217**	**0**
Tissue Paper	193	191	195	220	224	217	0
TOTAL PAPER AND BOARD	**2483**	**2610**	**2727**	**2506**	**2244**	**2497**	**0**
ALL GRADES OF PULP	**2193**	**2222**	**2311**	**2572**	**2130**	**2307**	
TOTAL PULP	**2193**	**2222**	**2311**	**2572**	**2130**	**2307**	**0**

* Include estimated annual production of other producers who do not submit monthly data to PAMSA

Table 6: Raw Material Consumption

Raw Materials consumed ('000 tons)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CONSOLIDATED	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD	YTD
Total softwood (metric tons as received)	**3 440**	**3 452**	**3 344**	**3 497**	**3 510**	**3 413**	**3 413**	**3 296**	**3 178**	**3 104**
Pine - wood (round logs with bark)	3 063	3 072	3 010	2 993	2 910	2 862	2 867	2 830	2 793	2 615
Pine - chips	377	381	334	504	600	551	546	466	385	489
Total hardwood (metric tons as received)	**3 576**	**3 572**	**4 193**	**4 423**	**4 463**	**4 550**	**4 727**	**4 791**	**4 855**	**5 280**
Eucalyptus - wood (round logs without bark)	3 228	3 297	3 832	3 967	3 981	4 121	4 423	4 439	4 455	4 780
Eucalyptus - chips	6	5	6	108	121	107	109	94	79	102
Other hardwoods - wood (round logs without bark)	341	270	355	347	361	322	195	258	320	398
Other hardwood - chips	0	-	-	-	-	-	-	-	-	-
Total bleached softwood pulp (air dried metric tons)	**159**	**145**	**133**	**139**	**137**	**145**	**132**	**166**	**200**	**211**
Bleached softwood pulp - sourced from mill in South Africa	116	114	101	104	117	129	125	160	194	201
Bleached softwood pulp - sourced from outside South Africa	43	31	32	35	19	16	6	6	6	10
Total unbleached softwood pulp (ad metric tons)	**18**	**40**	**21**	**12**	**8**	**12**	**11**	**12**	**13**	**5**
Unbleached softwood pulp - sourced from mill in South Africa	14	37	21	12	8	1	1	3	4	1

Unbleached softwood pulp - sourced from outside South Africa	4	3	-	0	-	11	10	9	9	4
Total bleached hardwood pulp (ad metric tons)	**231**	**296**	**339**	**282**	**298**	**368**	**363**	**364**	**365**	**330**
Bleached hardwood pulp - sourced from mill in South Africa	231	296	321	269	263	363	361	346	332	308
Bleached hardwood pulp - sourced from outside South Africa	-	0	18	13	34	5	3	18	33	22
Total unbleached hardwood pulp (ad metric tons)	**18**	**18**	**17**	**13**	**17**	**32**	**33**	**33**	**33**	**27**
Unbleached hardwood pulp - sourced from mill in South Africa	18	18	17	13	17	32	33	33	33	25
Unbleached hardwood pulp - sourced from outside South Africa	-	-	-	-	-	0	0	0	-	2
Bagasse (metric tons as received)	**153**	**164**	**229**	**244**	**180**	**230**	**216**	**134**	**52**	**74**
Recovered paper (metric tons as received)	**773**	**738**	**777**	**895**	**899**	**869**	**869**	**871**	**872**	**882**
Brown grades	510	470	514	615	619	600	618	647	677	693
White grades	263	268	263	280	279	269	252	223	195	189