



Industry tackles challenges with cautious optimism

In early September, statistician general Pali Lehohla announced that South Africa's gross domestic product (GDP) had rebounded by 2.5% for the second quarter of the year, lifting the country out of its technical recession. "The largest positive contributor to growth in GDP in the second quarter was the agriculture, forestry and fishing industry, which increased by 33.6% and contributed 0.7 of a percentage point to GDP growth," stated Lehohla.

Statistics South Africa (StatsSA) says that while 2,5% is an impressive recovery, longer-term indicators show subdued growth. "As a nation, the goal of achieving and sustaining higher rates of economic growth and development remains just as important as ever" remarked Lehohla.

Local headwinds

While there is no doubt that pulp and paper manufacturers operate in a challenging environment, there is some cause for optimism in some respects. Local paper manufacturers are adapting to market changes for advertising, publishing and office paper production, and focusing their business on the likes of specialty packaging and dissolving woodpulp (DWP).

A number of projects and upgrades have come online, but will only reap the benefits in the next 12 months or so. According to the 2016 industry review by the Paper Manufacturers Association of South Africa (PAMSA), packaging, tissue and DWP remain growth sectors in the face of locally driven headwinds.

From a global perspective, the last phase of the economic growth cycle appeared to have gained momentum from 2016 into 2017, with tissue and packaging grades developing along with global GDP.

In South Africa, this growth is more muted as the industry deals with fairly tight domestic economic conditions. Selective paper and pulp export markets continue to showcase patches of global competitiveness.

While global recycling volumes are mostly static, possibly a little weaker, South Africa continues to show particularly strong development in the paper recycling value chain – including collection rates, new uses of waste streams and improved processing and beneficiation technologies.

The wider local pulp and paper industry continues to drive cost controls while continually looking for sustainable opportunities. Packaging and tissue appear to be rising gradually in terms of per person consumption with some

Paper production and apparent consumption

All values in metric tonnes

| GRADE | PRODUCTION | IMPORTS | EXPORTS | CONSUMPTION |
|---|------------------|----------------|----------------|------------------|
| Newsprint | 208,402 | 5,739 | 40,000 | 174,141 |
| Printing/writing | 377,146 | 523,254 | 132,305 | 768,094 |
| Corrugating materials/ container board | 1,314,812 | 144,593 | 427,499 | 1,031,906 |
| Other wrapping papers | 48,029 | | | 48,029 |
| Tissue | 232,972 | 29,358 | 30,155 | 232,175 |
| Other paper | 140,387 | 44,935 | 89,468 | 95,854 |
| Board | 31,242 | | | 31,242 |
| Total | 2,352,989 | 747,879 | 719,426 | 2,381,442 |

strong export pockets. This is hopefully indicative of a resilient end-consumer finding some respite. However, from a manufacturers perspective, over capacity in packaging grades and high prices of recycled fibre (driven by exports of waste paper) have already seen one casualty with Lothlorien going into business rescue earlier in 2017.

Non-agricultural exports appear to be increasing, using locally produced packaging material. It is often assumed that South African exports are not that strong, however there are indications that packaging, for exported locally manufactured goods, are growing fairly well.

Mechanical grade production is under pressure as consumers feel the pinch. This is exacerbated by the continued inroads of digital newspapers and magazines into the publishing arena. Similar trends are apparent in overseas markets although local free newspapers, with their advertising spend, remain relatively strong. Recycling of these, and other papers, is becoming quite competitive.

Employment

According to StatsSA, jobs in the pulp and paper sector have experienced some volatility, however an overall decline is apparent. This is offset by increasing numbers of more qualified staff across the industry (2016 PAMSA industry survey). Forestry-related jobs (distinct from pulp and paper) continue to show some rise, with increasing pulp sector production and exports.

The recycling industry showed a large pickup in jobs in 2015. Although this was higher than 2014 and previous years, this was not entirely sustained in 2016. Increased collection and recycling rates seem to validate these higher job rates, and with increasing pressure to recover waste for beneficiation and recycling, one could possibly expect these jobs to be sustained.

Balance of trade (exports less imports)

Pulp production was static, however its export value was up just over 6%, reflecting foreign exchange rates. Printing and writing grades (mostly coated and uncoated woodfree products) continue to face import pressure – primarily related to South Africa's economies of scale and declines in local demand. Packaging and tissue, generally growth sectors in a developing South Africa, appear to be solid sub-sectors, regardless of the current foreign exchange advantages.

Consumption*

Printing and writing grades in absolute terms continue a long-run decline along with per person consumption. While there will be an economic pressure aspect to this, there is also the global paper-to-electronics substitution that continues to develop.

Some good news is that printed book reading is regaining popularity over e-readers.

Local packaging grades are doing well, with per person consumption hopefully on the rise. An interesting trend here is increasing exports from South Africa, using packaging material that is exported along with the goods it protects. There are indications that packaging for finished export products is growing fairly well. Similarly, tissue has once again shown higher per capita consumption.

** Consumption is defined as 'apparent consumption' (production plus imports less exports).*

Grades

Printing and writing

This includes newsprint, uncoated woodfree paper (UWF) and coated grades

In South Africa, coated grade paper production is now a thing of the past with the closure of the last producing machine in 2016. Looking at newsprint and UWF grades, further slides in production and consumption were noted.

Printing and writing grades, together with kg/person consumption, continue to trend downwards. Once again, this could be attributed to a combination of electronic media, electronic document storage, and the drive to reduce costs. Looking forward, GDP remains poor and forex volatile, pointing to long-term declining trends.

Fundamentally, our local issues remain internal costs (for example, utilities, resources and economies of scale) and external pressures (distance to market, demand declines and oversupply trends).

Packaging

Packaging grade production is strong. Local apparent consumption has risen as have exports while imports have declined. All in all, this is a very positive result. It is possible that the decline in imported grades are from more specialised sectors and indicative of negative economic pressures. The local paper packaging industry is holding its own on the global competitive field.

Looking forward, continued local consumerism and agricultural exports are expected to continue to grow, while key export packaging grades should rise. Pressure on pre and post-consumer recycling to increase its effectiveness should continue as many of these grades use brown and white recycled fibres – this factor bodes well for increasing recovery rates in South Africa.

Tissue

Tissue grades showed some growth in 2016, with production rebounding by 10% over the previous year's levels. This may be indicative of past destocking pressures. Consumption increased by around 6% year on year. Despite this, long term growth in this market is still waning, with jobs and earnings per household both performing badly.

With static exports, the remaining 4% of production appears to have out-competed imports; imports probably falling in response to a weaker rand.

Some good news is the rise in kg/person consumption. Looking forward, reports of new capacity coming on line will mean greater local competition or greater exports, or most likely both. Either way, more virgin pulp will be required as well as more high grade recycled fibre.

This segment seems to be very sensitive to the economic wellbeing of consumers and hopefully South Africa will see a return to economic growth in the not-too-distant future.

Paper recycling rate rises to 68.4%

The annual paper recovery rate has sustained 2% year-on-year growth since 2012 and now stands at 68.4%*.

"South Africa's recovery rate surpasses the global average of 58%," says the Paper Recycling Association of South Africa's operations director Ursula Henneberry, adding that recovered paper – the paper and cardboard put in our recycling bins – is a valuable raw material that South African manufacturers have been using as an alternative fibre since 1920.

*This represents the percentage of paper products that can be recovered and excludes the likes of books and archived records, and items that are contaminated or destroyed when used: tissue, hygiene products and cigarette paper.

PAMSA collates data from industry players and StatsSA to draw up an annual production report that tells the economic story and role that the pulp and paper industry fulfils in the South African economy.