2018

PAPER MANUFACTURERS ASSOCIATION OF SOUTH AFRICA (PAMSA)

SOUTH AFRICAN PULP AND PAPER INDUSTRY

Summary of 2018 production, import and export statistics

Sector overview

The pulp and paper sector is a vital contributor to South Africa's economy and society. From toilet tissue and cereal boxes in the home to boxes for export oranges, paper is essential in every facet of life.

Along with forestry, the sector also provides an environmental service. Produced from sustainably farmed trees, paper is a renewable resource and can be recycled into new paper and tissue products. Like the wood from which it is made, paper stores carbon, even when it is recycled, which is why it is the environmentally sensible choice for packaging and communication.

The relationship between paper consumption and economic growth has been observed for a long time.

While printing and writing grades continue to give up volumes to electronic media, packaging and tissue grades are showing resilience and even growth in an economy facing numerous pressures.

The increased contributions to GDP by the sector are mostly driven by packaging grades and, to some extent, pulp export prices.

Sector contribution to GDP[1]	2015	2016	2017	2018
Forestry-to-paper contribution to SA GDP	0.49%	0.44%	0.48%	0.53%
Forestry contribution to manufacturing GDP	4.21%	3.64%	4.06%	4.52%
Forestry contribution to agricultural GDP	23.3%	20.1%	21.0%	24.41%

Balance of trade

South Africa's pulp and paper sector contributed R7.3 billion to the country's balance of trade, with R4.9 billion of papers being imported and R12.2 billion worth of pulp being exported. (The balance of trade is the difference between the value of a country's imports and exports for a given period.)

Overall, pulp production has remained static however there have been peaks and troughs within different pulp grades. An increase in export volumes was accompanied by a decline in the local consumption of certain grades of pulp. There has also been an increase in the volume of imported specialist grades.

Fundamentally, local pulp production has shifted its focus to competitive grades and, in reality, is making a significant contribution to a positive South African trade balance. While local production and the import and export of selected grades has risen, printing and writing grades are continuing their downward trend owing to competition from imports. Packaging and tissue grade export volumes continue to rise; these gains appear to be sustainable in line with the industry's current competitive stance in global markets.

Production and consumption

	Paper production	Paper imports	Paper exports	Paper consumption
Newsprint	113 912	53 479	63 094	104 297
Printing/writing	361 238	500 654	147 793	714 098
Corrugating materials/ containerboard	1 325 518	144 720	310 034	1 160 204
Tissue	239 209	29 607	37 084	231 732
Other paper	11 151			11 151
Board	135 162	57 259	106 252	86 168
Total tonnes	**2 223 213**	**785 719**	**664 257**	**2 344 675**

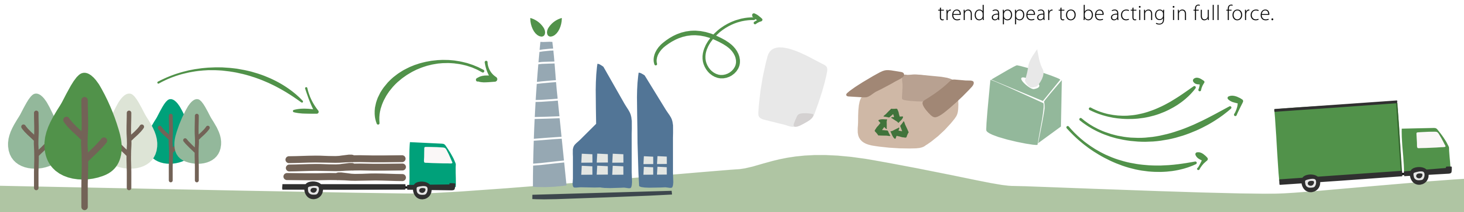
Consumption

South Africa consumed 2.344 million tonnes of paper, paper packaging and tissue in 2018, up 4% on 2017's consumption but down slightly from 2016's 2.381 million tonnes.

This is good news for a sector that has faced a decline in printing and writing grades. Demand for more renewable and recyclable packaging materials is expected to have a positive influence on the sector going forward.

More consumer-orientated packaging grades appear to be making a slight rebound. Positive increases in the export of South African products are also contributing to this trend, while the growing anti-plastics movement is favouring moves towards paper-based packaging.

Demand levels for printing and writing grades in absolute terms and kilogram per person continue to decline. Both economic pressure and the global electronics substitution trend appear to be acting in full force.



[1]Estimates derived from Statistics SA GDP figures and sales values for the sector

Printing and writing papers, newsprint and uncoated and coated grades

Printing and writing grades in South Africa continue to mirror global trends as the industry contracts owing mostly to lower product usage as a result of digitisation. On the local front, the situation is made worse by the country's economy. South Africa's nil or negative growth levels undermine the achievement of the economies of scale required for globally competitive levels of plant utilisation.

Volumes of **uncoated woodfree grades** – A4 and A3 copier paper – appear to have stabilised temporarily with small increases in sales and production. It is expected that volumes (mainly A4) will diminish as printing needs decline. However, the decline in coated grade use may have been arrested by a marginal gain in consumption.

Newsprint production and consumption also continue to decline with the increasing prevalence of electronic media. However, in the longer term this could be partly offset by the growth in local community newspapers with a high proportion of marketing inserts.

Tissue

Tissue is showing a small degree of positive growth. Exports have increased while imports have declined. Looking ahead, sustained reports of new capacity coming on line will mean greater local competition and simultaneous growth in export volumes. Both scenarios will ensure that more virgin pulp and high-grade recycled fibre will be required. But overcapacity is likely to put tissue margins under pressure in 2019.

Packaging papers

Packaging grade production remains comparatively strong and has increased marginally despite weak growth in the South African GDP. There is a perceived improvement in local per capita consumption which may be due either to retail outlets restocking or a genuine growth in consumer demand.

Hopefully this indicates a strengthening of the fundamentals necessary to support improved growth in the retail sector. It has to be acknowledged that the consumer remains under severe pressure. That said, imports have grown and exports have decreased, indicative of greater domestic packaging consumption.

South African exports of cardboard packaged products continue to increase and while this is a welcome trend for our economy, it is a warning that there will be a growing deficit of cardboard boxes available for recycling.

Jobs

The paper recycling industry continues to show an upward trend. Increased collection and recycling rates are reflected in increasing levels of employment within the industry.

157 288

Estimated number of people employed in the forestry-pulp-paper-recycling value chain Source: Stats SA

Recovery and recycling rates

	Paper recovered in SA	Recovered paper imports	Recovered paper exports	Consumption of recycled paper in SA
Newsprint[2]	123 116	2 609	99 811	25 914
Magazines	6 469			6 469
Corrugated, solid cases, kraft papers	897 754	24 506	49 110	873 150
Office, graphic papers	199 240	242	7 307	192 175
Mixed and other papers	58 672	26 560	6 782	78 450
Total tonnes	**1 285 250**	**53 917**	**163 010**	**1 176 157**

Recoverable paper	
Paper consumption	2 344 675
Adjusted for NET trade corrugated box packaging (+ve = net inflow)	- 158 202
Less paper unsuitable for recovery	- 393 446
Recoverable paper (total tonnes)	**1 793 026**

Paper recovery rates	2015	2016	2017	2018
Recyclable paper recovered as % of paper consumption	49.5%	58.7%	56.9%	54.8%
Recovered paper as % of recoverable paper *	66.7%	68.4%	70.7%	**71.7%**

*Recoverable paper excludes paper which is unrecoverable or unsuitable for recycling. For example, toilet tissue and sanitary products, cigarette paper and archive material.

71.7%

of recoverable paper was diverted from South Africa's landfills in 2018

This represents **1.285 million tonnes of the 1.793 million tonnes** available for recovery*.

Domestic consumption of recovered paper went up by around 5% from 830 000 tonnes in 2017 to 873 000 tonnes in 2018. This indicated that there was more recyclable material in the market for collection.

A lag between production, consumption, collections and eventual reprocessing into new product means that actual recycling rates can be difficult to pin down. Note that the quantum of beneficiated fibre is affected by the recyclable fibre leaving the country as packaging for exported primary products (agricultural products and other manufactured goods). Over the past few years, this has steadily increased to **158 202 tonnes** of net box exports. This, plus the **163 101 tonnes** of waste paper exported, is deducted from the recovered paper to get the **964 038 tonnes** beneficiated by paper manufacturers.

2. Newsprint - adjustment of 15 000 tonnes subtracted from virgin newsprint exports, added to recovered newsprint exports (due to SARS misallocation)