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Paper crisis - the perfect storm, now showing signs of abating

From the desk of the CEO

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Over the past week, Printing SA has been speaking to a few interested parties to understand and examine the recent conditions of the paper impact comparing from last year to where the whole crisis started beginning of Covid 19.

We will first examine how the current environment looks like locally, the supply of paper, the impact of loadshedding. Some paper is still scarce, the paper not locally manufactured, EPR Scheme. We looked how global developments, KZN riots had an adversely effected the industry.

While there is some degree of ongoing volatility in the near term, overall, there is optimism and the outlook for 2023 is looking much better.

The current paper situation in South Africa

According to one major paper manufacture and the supplier, the situation as at the beginning of this year has calmed substantially. The input costs are starting to decline, the paper and board stocks being available once again. If all goes well, further decreases are expected as supply ramps up, and demand lessens. So it may be that we have turned the corner in terms of supply issues. Both local paper manufactures are back in full production.

This year can only be better, in general we are seeing prices start to retract and expect this to continue for most of this year, though pulp still remains in short supply and whilst this remains, it will slow the retraction of paper prices.

However, just when things were looking up once again, the dreaded loadshedding has now ramped up to stages 5 and 6, with worse predictions forecasted over the next two years, making it harder for businesses to be profitable. Companies are now forced to consider investing in alternative energy, like

installing generators or solar power as back up. This comes at huge capital and continuous operational costs, that cannot be passed onto the customers. Margins of profit are now being eroded, and it is tough just to keep the doors open and to keep machines running optimally.

Some paper still scarce, some not locally manufactured, EPR Scheme

There is only one mill for newsprint production, and is battling to keep open if cheaper imports are brought in. Users need to give preference to local manufacture otherwise it will force closure of this mill, and we will then have to rely totally on imports, said one paper manufacturer.

A coordinated approach between manufacturers paper importers is needed, not to collude but rather to keep the long-term view in mind and work collaboratively to protect local production and the industry sustainability.

The coated and uncoated paper comes from Europe, they set the prices, and the industry is forced to take what it can afford. The industry used to import wastepaper from SADC as they did not have capacity to recycle, but now some difficulties are being experienced.

The extended Producer Responsibility (EPR) schemes are well underway and firmly entrenched. Companies have bought into idea of registering and paying their dues. The new pricing for this year is being finalized. Waste pickers are now more organized and waste is being managed far better.

Thermal paper saw about 6% increases in 2021. The application for tighter controls on quality, standards and specific import codes will help local convertors from contending with cheaper quality imports.

How the global developments, KZN riots and floods affected SA industry.

SA was impacted negatively from global developments, more so because of the insurrection in KZN in 2021 followed by the floods in 2022, affecting local mills and their production both for local needs and for exports. This was in addition to Richards Bay and Durban harbours affected, with backlogs in clearing of container ships, and the rail network being pilfered and becoming dysfunctional along some major lines, adding more traffic to roads. The burning of some trucks as a result of some groups objecting to local drivers not being employed also added to shortages and added costs.

Companies buying paper were put on allocation, able to buy less than what they required, but at the same time paying more than double due to added transport costs, shipping costs, and taking whatever could be laid hands on at exorbitant rates to keep production lines open.

The Covid hard lockdowns of 2020 started a trajectory of beginning a crisis of a magnitude not experienced before, resulting in what has been described as the “perfect storm”. Besides disrupting international supply chains, with airports and harbours closed, affecting all trade across all sectors not only print and packaging. Exports and imports were impacted on a global scale. To make it worse, printing companies in South Africa were not considered as essential services, with the exception of those producing carton and other boxes for online delivery of pharmaceutical goods and food, clothing and other essential products.

In 2021 things improved slightly, but some companies were forced to close, while others amalgamated, impacting negatively on the soaring unemployment. Magazine production came to a halt, and newspapers also felt the sharp decline in circulation and sales. Companies went online and into the digital sphere with their marketing spend.

The situation in Europe

In February 2020 the war in Ukraine started with many unintended consequences. With US and NATO sanctions being applied to Russia, it stopped all forest products from entering Europe. Major pulp and printing players divested their operations in Russia. This brought on a severe oil, gas and energy shortages, impacting performance of mills across Europe, and also forcing closures of mills and exports coming out from Russia. Other countries had to step in to produce the shortfalls.

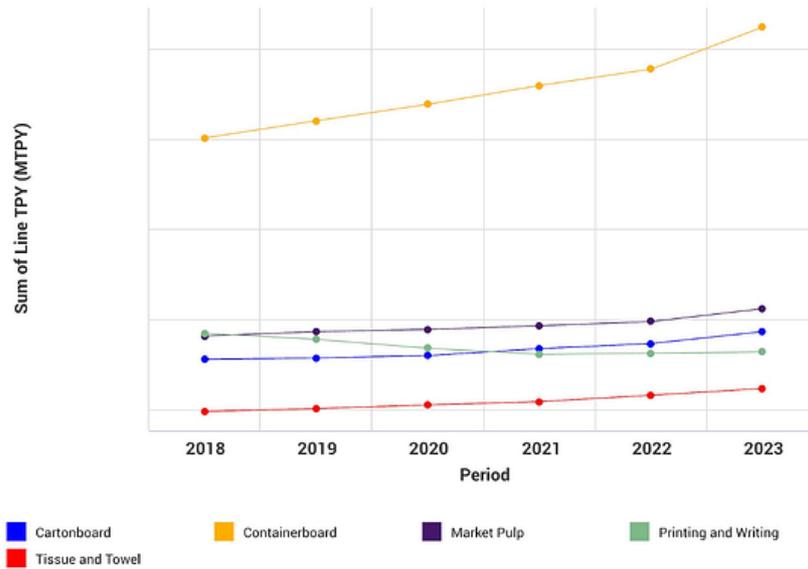
Europe also had strikes by unionized workers and drivers from the Paper workers’ Union strike that began at most of UPM’s Finnish mills in Jan 2022 ending in April. Nearly 2,000 members of the union went on strike, exacerbating the paper shortages. Sales shipments plummeted from 306 to 53, and operating income plummeted to 35%.

The top five major grades of the Pulp and Paper industry in 2022 included containerboard, market pulp, carton board, printing and writing, and tissue and towel. Recently printing and writing has experienced a significant decline due to a switch over to online transactions.

Carton board demand increased due to the bustling e-commerce segment voracious demand for boxes and packaging, although over capacity is now being felt.

While tissue and towel has had the lowest amount of capacity produced, it has had the highest growth rate.

Global Capacity of Top 5 Major Grades



Source: FisherSolve

With increasing inflation and a looming recession and higher unemployment, these could negatively impact the e-commerce sector, causing growth to plateau.

One amazing new project was the Klabin's Puma II project that exceeded expectations after a year in production of high quality kraftliner board called Eukaliner – the world's first kraftliner using 100% eucalyptus fiber. This became a global game-changer for this segment of the pulp and paper industry, producing over 330,000 tons of Eukaliner and Eukaliner White.

The other global shifts included many divestitures, acquisitions and mergers across the Atlantic and the Americas.

According to Pulp and Paper Market Outlook Report 2023, the Pulp and Paper market is expected to register fluctuating growth trends in the long term, while inflation and supply chain concerns are expected to continue in 2023.

While there is some degree of ongoing volatility in the near term, overall there is optimism and the outlook for 2023 is looking much better.